

Unitywater



Annual Report 2010-2011



Unitywater

About this report

The 2010-2011 Annual Report for Unitywater has been prepared in accordance with the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009* and the *Annual Report Guidelines for Queensland Government Agencies*.

This report is publicly available and can be viewed and downloaded from the Unitywater website at www.unitywater.com/annualreport.

To meet State Government requirements, a limited number of this report were printed.

Consistent with our Environmental Management Policy, all printed copies were produced using environmentally-responsible stock (see back cover).

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Unitywater is committed to providing accessible services to Queensland residents from all cultural and linguistic backgrounds. If you have difficulty understanding this Annual Report and require an interpreter, please contact the Translating and Interpreting Service (TIS National) on telephone 131450.



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John | Electrical and Instrument Technician
with a Magnetic Flowmeter & Transmitter
used to measure water flows



A year of highlights and challenges

The past year has been one of significant change and transformation in South East Queensland's water and sewerage industry.

As part of this dynamic environment, Unitywater officially began operations serving the water supply and sewerage needs of communities within the Moreton Bay and Sunshine Coast regions.

With our first fully-operational year now completed, Unitywater maintains a commitment to building a sustainable and industry-leading business with a strong customer and community focus.

This report forms part of Unitywater's efforts to communicate effectively and transparently to our customers and stakeholders.

It has been a landmark year in our evolution and this report provides information about both the operational and financial performance of Unitywater for 2010-2011. It records Unitywater's achievements together with our challenges, as measured against the organisation's corporate objectives, strategies and targets.

Challenges

- Operating under a new water reform regulatory and pricing framework and transitioning our communities through this change.
- Sustaining momentum during the political uncertainty surrounding ongoing water reform and enduring unprecedented scrutiny.
- Securing funds to provide essential projects, enhance existing infrastructure and prepare for the future.
- Balancing environmental and economic outcomes to deliver critical water supply and sewerage services to a growing region.
- Competition against resource sector for skilled staff amidst an increase in development applications.

The Hyatt Coolum Golf Course is kept green with recycled water from Unitywater — Coolum 4am



Highlights

- Prioritised the public and environmental health of our communities by safeguarding networks and operations.
- Invested almost \$160 million in 392 capital works projects to address critical infrastructure needs.
- Saved or deferred more than \$100 million in expenditure by introducing a robust business case regime to ensure all capital work is prudent, efficient and in line with regulatory guidelines.
- Achieved business and customer service efficiencies by consolidating our call centres into a single operation designed to streamline, better manage and track enquiries.
- Developed our strategic plan and a program of major projects to strengthen our business and provide a platform for the future.
- Established customer and business reference groups to help build relationships and hosted open days at our facilities for people to learn more about what we do for our community and environment.
- Responded to and worked through the worst weather and flooding events experienced by our region in decades, ensuring continuous supply to our customers and assisting our Brisbane neighbours in their recovery.
- Received industry recognition for our staff, world-first scientific breakthroughs and leading-edge projects.
- Built a progressive and contemporary organisation through the consolidation of six regional business units.

"You may never notice, but I'm one of the field crews who work through the night to ensure you have the right start to your day."



Clinton | Leading Hand
Replacing Fire Hydrants — Kenilworth 11.45pm



Our profile

Who we are

Unitywater provides water supply and sewerage services to residential and business customers throughout the Moreton Bay and Sunshine Coast regions of South East Queensland.

A statutory authority established as part of the Queensland Government's water reform program, we officially began operations on 1 July 2010.

We are a local business (owned by our two participant Councils, Moreton Bay Regional Council and the Sunshine Coast Council) solely focused on providing critical water supply and sewerage services to meet the needs of our growing communities. During the past year, we have been dedicated to building an efficient, transparent and responsive organisation.

Combining the existing water supply and sewerage services of the Moreton Bay and Sunshine Coast councils, our customer base covers an extensive and diverse geographic area of more than 5000 square kilometres.

Stretching from Samford in the south to Cooroy in the north, this region is currently home to an estimated 724,000 residents representing approximately 24 percent of South East Queensland's population.

Twenty-four hours a day and seven days a week, our priority is providing customers with a high quality, safe and reliable water supply and sewerage service that is economically and environmentally sustainable.

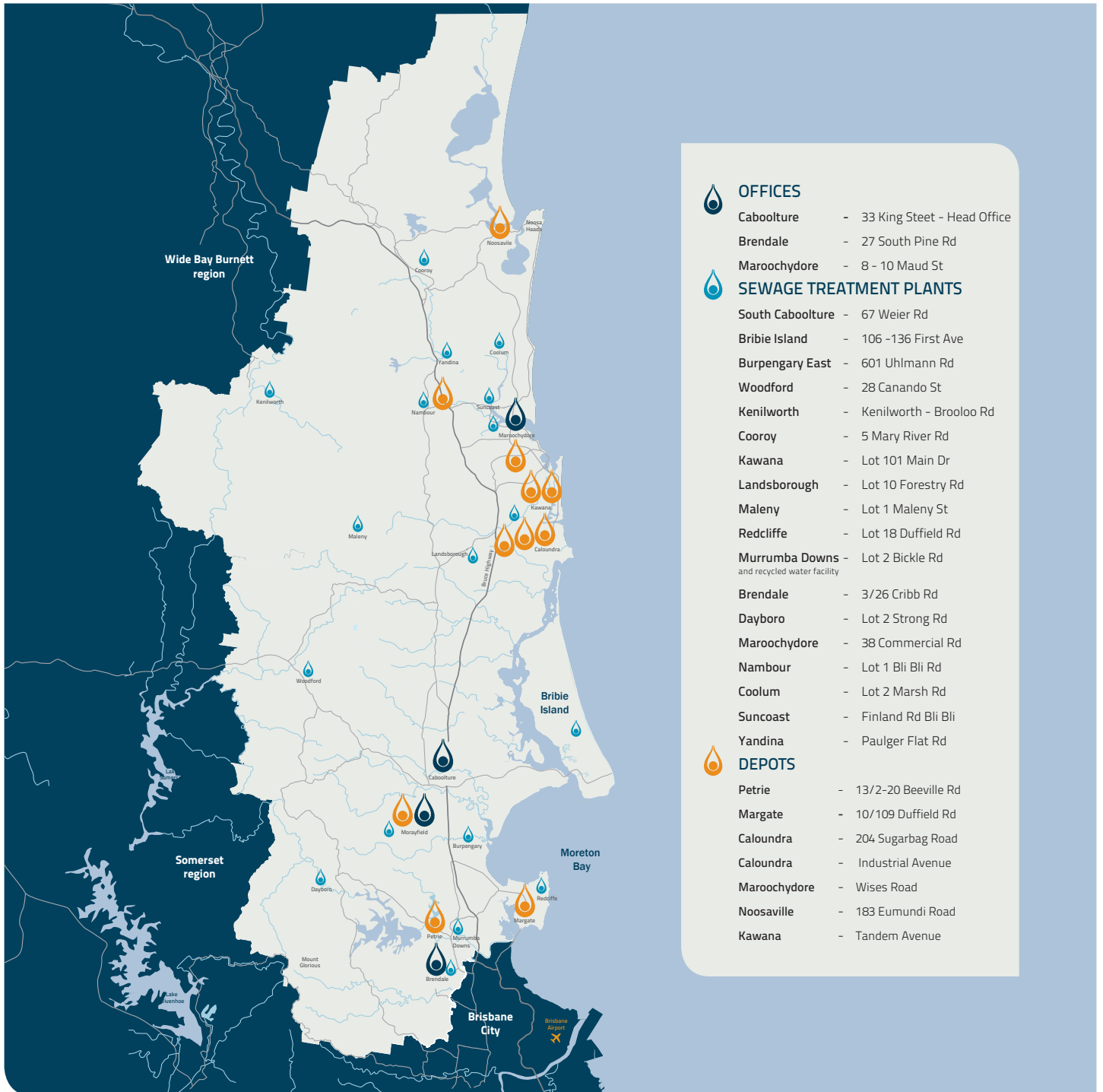
Unitywater and the Water Grid

The establishment of Unitywater completed the second stage of the State Government's restructure of the water industry that first began in 2007. We are one of three water distribution and retail businesses specifically formed to service regions within South East Queensland as part of an integrated water grid framework.

The SEQ Water Grid was designed to secure the continuous supply of water to the region. Our place and role within this water management network and supply chain was legislatively enacted in 2009 and today we are a key participant in this Grid.

We represent our local area on water supply and sewerage service issues and also work with businesses and communities to meet the broader SEQ region's economic, social and environmental needs within a water management context.

"You may never notice, but our network of pipes stretch over 10,000km - that's from Brisbane to Perth and back."



Unitywater locations as at 30 June 2011



Our profile

What we do

With our comprehensive infrastructure network and thousands of kilometres of pipelines, Unitywater connects communities to vital services.

As a water distribution and retail business, Unitywater provides a critical community and business service. We own, operate and manage assets and infrastructure transferred from the Moreton Bay and Sunshine Coast councils to provide essential water supply and sewage services to our customers.

On behalf of our communities, we:

- provide a reliable, secure and safe water supply to residents and businesses
- collect, treat and dispose of sewage
- operate sewage treatment plants and pumping stations
- manage trade waste from our business and industrial customers
- manage and maintain our water supply and sewerage infrastructure and assets
- issue and manage water supply and sewerage accounts for residential and business customers
- manage customer and stakeholder enquiries.

Unitywater's purpose is the provision of safe and reliable water supply and sewerage services to our customers and communities. We are positioned to manage and maintain assets and infrastructure now and into the future.

With assets valued at more than \$2.5 billion, our task is to optimise their performance to ensure we meet the environmental, social and economic aspirations of our communities.

We have a significant network including:*

Number of potable water connections	270,004
Number of recycled water connections	1002
Number of sewerage connections	246,697
Kilometres of water mains	5483 kms
Kilometres of sewerage pipeline	5273 kms
Recycled Water Mains	69 kms
Number of water reservoirs	112
Number of water pump stations	78
Number of sewerage pump stations	776
Number of sewerage treatment plants	18
Advanced water treatment plants (recycled water)	2

*Based on information available as at 30 June 2011

Our profile

How we do business

Water supply and sewerage services are an essential component of community life and, at Unitywater, we take our role and responsibilities seriously.

We are guided in our operations by a strong vision, a clear purpose and a genuine set of values.

Our vision

To create a sustainable, industry-leading, community and customer oriented water and allied services business.

Our purpose

To deliver water to customers and to collect, transport and then treat their sewage.



Mark | Sampling Officer
— Chambers Island Maroochydore 3pm



Our values

Our values describe what Unitywater stands for and the way we want to be viewed both internally by our people and externally by our customers and stakeholders. Our values are enduring, drive our behaviours and define our culture.

In the past 12 months, Unitywater developed an inaugural Corporate Strategic Plan which outlines our five-year vision for the future, our objectives and our strategies.

This Plan provides the template for measuring and tracking our progress towards our objectives and longer-term vision.

More broadly, the Plan has synergy with the ambitions of the State Government's *Toward Q2: Tomorrow's Queensland* blueprint as Unitywater continues to plan for and invest in water infrastructure. Similarly, as water reform initiatives derive from the Council of Australian Governments (COAG), Unitywater recognises our obligation to respond appropriately.

Safe

- ◆ We are committed to providing safe water supply and sewerage services.
- ◆ We have safety as a primary priority and believe it is the responsibility of all Unitywater staff.

Responsive

- ◆ We listen and respond to our customers' needs.
- ◆ We work cooperatively with our suppliers towards mutual benefit.
- ◆ We work with our regulators to meet their requirements.

Sustainable

- ◆ We promote a workplace where people are empowered and focus on continuous improvement.
- ◆ We are innovative in the delivery of our products and services.
- ◆ We make decisions that balance the best interests of the business, customers, staff, the environment and the community.
- ◆ We seek to understand and minimise our impact on the surrounding environment.

Our profile

Our strategy

To achieve our vision, Unitywater's Strategic Plan 2010-2015 outlines the four key objectives designed to underpin our business and to drive the best outcomes for our customers, stakeholders and communities.

These corporate objectives provide a roadmap for Unitywater through to 2015.

Customer satisfaction

We will strive for excellence in customer service. We will proactively engage with our customers to understand their expectations and meet their needs.

Our focus:

- meet our customers' expectations
- positively influence our stakeholders and engage our community



Integrated whole-of-region business

We will establish a solid foundation and realise operational efficiencies, improve customer service and maximise infrastructure return.

Our focus:

- deliver water supply and sewerage services
- consolidate operations
- integrate Information Communications Technology systems





Proud, productive people

We will build an organisation people want to belong to.

This will ensure that we attract and retain the right people.

Our focus:

- zero harm
- develop a flexible and skilled workforce
- foster a commercial culture

Sustainable value and growth

We will deliver strong financial performance through cost-effective delivery of services. Through proactive engagement and environmental respect, we will seek out value-adding opportunities.

Our focus:

- drive efficiencies
- innovatively sustain our environment
- seek new business opportunities

"You may never notice, but our odour control technology is easy on the nose, and our neighbours."

PARAMETER	TARGET	ACHIEVED
Number of odour complaints per 1000 connected sewerage properties per year	<3	1.3
Sewage Treatment Plant compliance	≥98%	98%
Sewage overflows (dry weather overflows per 100kms per annum)	<2.2	1.9
Number of sewer main breaks and chokes per 100 kilometres of mains per year	<40	11





Our operational performance

Customer satisfaction

KEY OUTCOMES 2010-2011

Developed a strong customer-centric culture to ensure customer contact is timely, professional, relevant and effective

Focused on customer care and developed a Customer Charter

Established a Customer and Community Reference Group and Business Advisory Group

Conducted community information open days

Adopted a case management approach to individual customers and their enquiries

Activated a range of communication and educational initiatives to inform and engage with our communities

Standardised policy and procedures across our region to ensure fair and equitable customer experiences

Initiated a brand recovery strategy to better engage with customers and stakeholders

Unitywater strives to build and maintain positive relationships with our customers and communities through open and proactive communication.

We recognise that communities have had resistance to water supply and sewerage services reforms. In our own region, we have been determined to engage with our customers, form 'grassroots' links and build relationships.

In 2010-2011, more than 200,000 phone enquiries were handled; on average there were more than 650 stakeholder interactions per month; and approximately 75 site visits were made to homes and businesses every week.

These statistics are important not only for business planning and performance management, but to also demonstrate the range of opportunities for engaging with our customers.

Through research, we were able to recognise that customer satisfaction is linked to our billing cycle and our challenge is to shift the focus from pricing to the value of continuity, reliability and quality of our services.

Building confidence with our customers is a priority. The introduction of water meter reading notices and a supporting educational strategy has addressed customer concerns and provided greater certainty to our communities.

A Customer Charter was developed as our commitment and promise to the community. As the next step in this initiative, Unitywater will combine the existing service standards inherited from the Moreton Bay and Sunshine Coast councils for consistency and equity.

We also met our target within the *South East Queensland Water Strategy* for reductions in community water consumption within our region.

Case Study:

Community information days

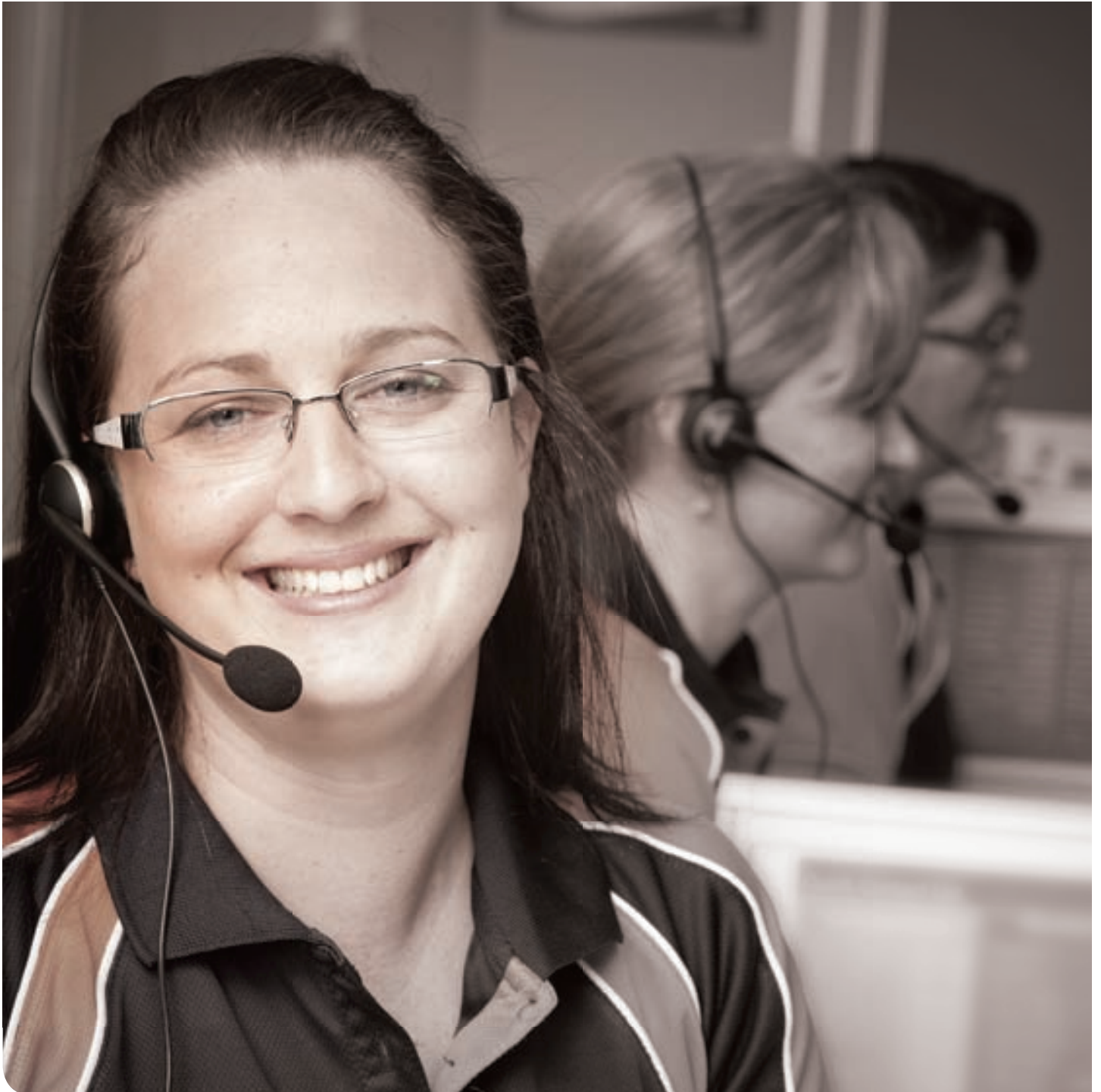
The Maroochydore Sewage Treatment Plant on the Sunshine Coast proved to be a popular venue when Unitywater held its first ever Community Information Day at the facility in January 2011.

Attracting more than 160 locals including residents, business owners, elected members, media and community groups, the event was an opportunity to not only discover more about Unitywater but also have a first-hand view of our operations in action.

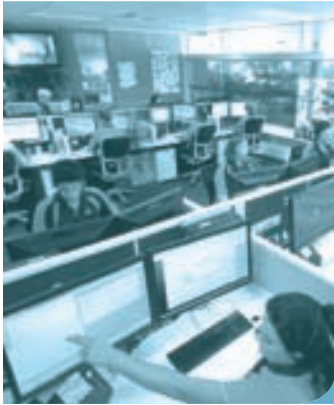
Throughout the day, visitors were able to participate in free tours of the facility, talk to Unitywater staff and view a range of informative displays providing insights into our organisation.

Positive feedback from visitors led to an additional Community Information Day at the Murrumba Downs Sewage Treatment Plant.

"You may never notice, but we answered more than 200,000 calls last year - thanks for calling."



*Kelly | Call Centre Supervisor
— Maroochydore 9am*



Our operational performance

Integrated whole-of-region business

KEY OUTCOMES 2010-2011

Invested almost \$160 million in 392 capital projects to enhance water supply and sewerage infrastructure across the Moreton Bay and Sunshine Coast regions

Implemented 24/7 network control rooms to monitor and facilitate rapid response to incidents and infrastructure issues across the customer service area

Implemented tariff reform to move towards whole-of-region pricing

Commenced a program of integrated field services including standardisation of materials and work methods delivering \$5 million in savings

Consolidated and rationalised our accommodation facilities to deliver savings to customers, drive business efficiencies and better connect our workforce

Implemented mobile computing dispatch systems enabling field staff to improve response times to customer requests and network incidents

Achieved business and customer service efficiencies through the consolidation of our call centre into a single operation

- completed the three-year \$197 million upgrade to the Murrumba Downs Sewage Treatment Plant (STP)
- commenced Stage Two of the South Caboolture STP augmentation and continued the Burpengary East STP augmentation
- commenced construction of the Kunda Park reservoir
- upgraded the Woombye sewage pumping station
- constructed new sewer mains in Redcliffe and a new sewer rising main to service Mango Hill, Griffin and Dakabin
- undertook an ongoing fire hydrant replacement program with an annual budget of \$4.6 million.

During 2010-2011, Unitywater focused on the tactical challenge of merging the operational elements of the previous Moreton Bay and Sunshine Coast councils' water and sewerage portfolios into a single, cohesive business.

This task had implications across all Unitywater divisions from computer systems and customer service through to field operations staff. Significant progress has been made in this transition with clear benefits emerging for customers as savings are made through a consolidation and rationalisation program.

Unitywater operates within a growth corridor and providing infrastructure to match the needs of an increasing population is an ongoing priority. In 2010-2011, Unitywater delivered the following key infrastructure projects to enhance services for our customers:

Case Study: Consolidated Call Centre

Dialling up service and savings for customers.

The consolidation of our separate call centres into one single facility confirms our commitment to our customers and to our service delivery. With professional, friendly and helpful advice from our customer service team who are local residents with local knowledge, Unitywater is focused on efficient service delivery.

The establishment of the single call centre is the first step in our facility rationalisation agenda with a review of a number of Unitywater sites across the entire region completed. This program is expected to deliver savings as well as unify staff.

"You may never notice, but when we look through our microscope, our focus is on you — our customer."



Tracey | Microbiologist — Maroochydore Laboratory 2pm.

Qld Water Industry Woman of the Year; Qld Program Innovation of the Year (Australian Water Association Awards).



Our operational performance

Proud, productive people

KEY OUTCOMES 2010-2011

Designed the right organisational structure and hierarchy for our business

Undertook an Employee Opinion Survey to establish a baseline for employee engagement

Consolidated and aligned our Workplace Health and Safety management system

Commenced development of Core Competency Framework

Demonstrated a significant downward trend in Lost Time Injuries (LTIs)

Provided 3300 learning and development opportunities

Commenced talent identification and succession planning

Award-winning staff members recognised by the industry for their professional contributions

Unitywater may be a new organisation but we are built on a foundation of decades of knowledge and experience. From field staff to technical and management personnel, hundreds of employees who transferred from the Moreton Bay and Sunshine Coast councils now form part of our workforce.

Unitywater's greatest asset is our people and we recognise that investing in their safety, productivity and motivation supports our vision.

Throughout 2010-2011, we have been building a sustainable, adaptable and engaged workforce for the future.

Case Study:

World first breakthrough

The community benefits from scientific advances in our laboratories.

A groundbreaking initiative which has scientifically fast-tracked the detection of bacteria in water has been developed by Unitywater's laboratory team.

Staff microbiologist Dr Tracey Wohlsen and the team at Unitywater's Maroochydhore facility led the breakthrough which is set to minimise public health risks in our waterways.

This new procedure effectively halves the time taken to determine the presence of bacteria such as E.coli which is found in waterways contaminated by human and animal faecal waste.

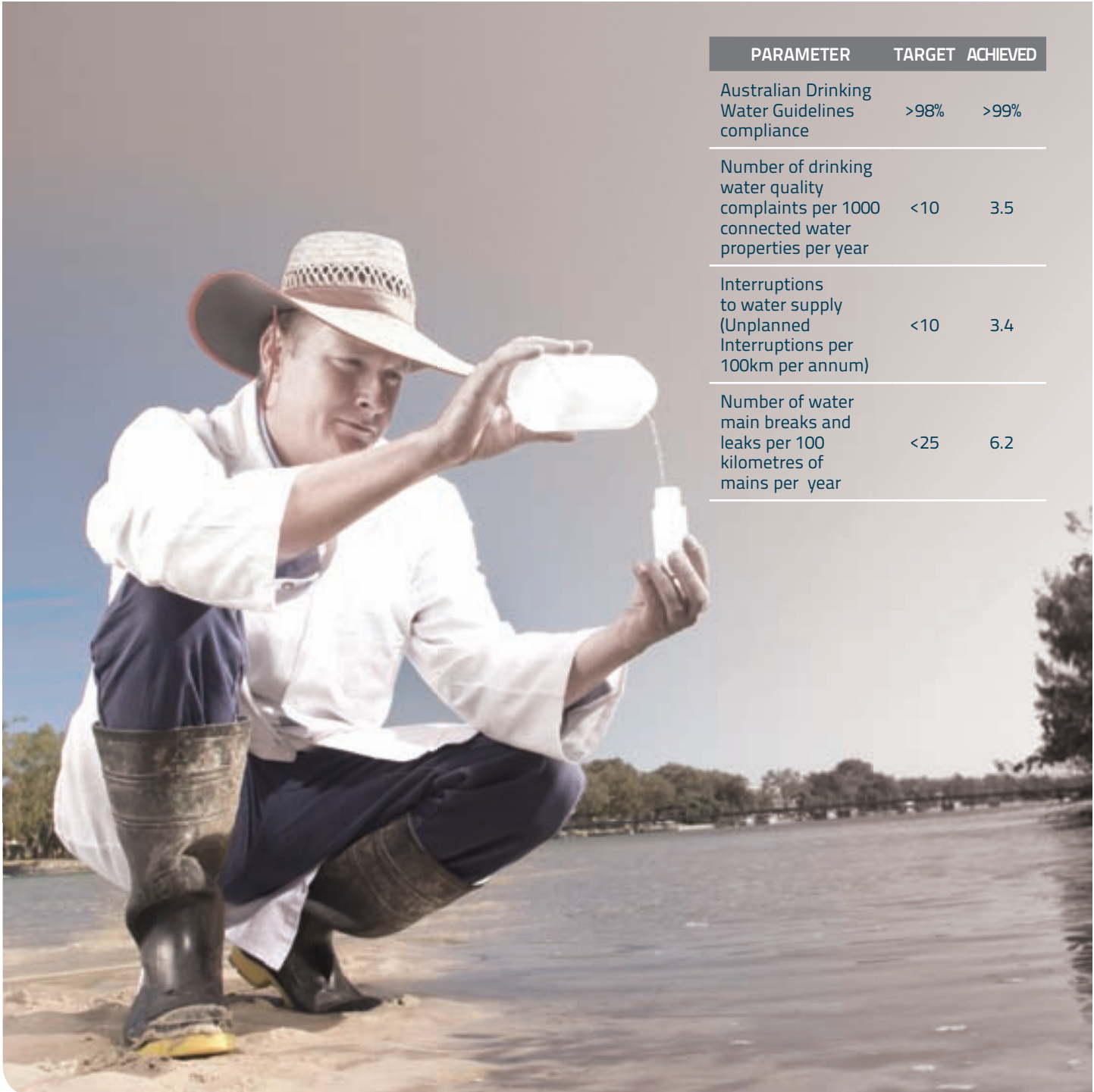
Water samples can now be tested with this latest technique resulting in sites potentially reopened in as little as 24 hours. This breakthrough offers scientific, environmental and social benefits to the community.

With Unitywater's ability to respond to incidents promptly, our community is less likely to be affected by protracted waterway closures and can resume their recreational pursuits.

The innovation is also regarded as an important step forward for the Australian water industry and is testament to the skills and diligence of our laboratory staff.

The team received industry recognition by winning the Australian Water Association Awards for Qld Program Innovation of the Year and Qld Water Industry Woman of the Year.

“You may never notice, but we’re testing the waters today to create a better tomorrow for you.”



PARAMETER	TARGET	ACHIEVED
Australian Drinking Water Guidelines compliance	>98%	>99%
Number of drinking water quality complaints per 1000 connected water properties per year	<10	3.5
Interruptions to water supply (Unplanned Interruptions per 100km per annum)	<10	3.4
Number of water main breaks and leaks per 100 kilometres of mains per year	<25	6.2

Mark | Sampling Officer

collecting environmental water samples for laboratory analysis — Chambers Island Maroochydore 4pm



Our operational performance

Sustainable value and growth

KEY OUTCOMES 2010-2011

Deferred more than \$100 million in expenditure by introducing a robust business case regime to ensure all capital work is prudent and efficient

Completed a fleet review and rationalisation with both economic and environmental outcomes for our customers and communities

Completed a Corporate Procurement Plan aimed to not only deliver savings but also provide transparency and accountability in purchasing procedures

Commenced development of a comprehensive maintenance schedule to improve the life of our asset base and reduce the potential for incidents

Introduced an Environmental Management Strategy

Developed business continuity plans to ensure minimal disruption to the business during incidents

Sustainability is a cornerstone of Unitywater's operations and we have laid the foundations for providing customers with quality, efficient and value-for-money services.

Six former water and sewerage businesses have become one and previous operating practices have been replaced with an emerging commercial culture and a focus on economic and environmental sustainability.

Environmentally, Unitywater developed a management strategy to guide operations for the next five years and manage the impact of activities on the environment.

As a benchmark for tracking our own internal environmental performance on energy consumption, yearly figures indicate that Unitywater used 61,013 megawatt hours of energy at our facilities.

Case Study:

Collaboration for customers

A collaborative project with our neighbouring counterpart, Queensland Urban Utilities (QUU), will deliver significant savings in capital expenditure, providing for future population growth and helping maintain water quality in the South Pine River.

Under this agreement, Unitywater will divert sewage from our Arana Hills catchment to QUU's Water Reclamation Plant at Pinkenba.

The interconnection eliminates the need for the construction of high cost infrastructure to take sewage to Unitywater's Brendale Sewage Treatment Plant. It also allows for the deferral of a \$55 million upgrade to this facility providing us with the opportunity to use the benefit of time to determine a more suitable, cost-effective and environmentally-beneficial solution.

This innovative partnership assists Unitywater in providing high quality, economical and environmentally-sustainable water supply and sewerage services to our customers.

“You may never notice, but the people that work at Unitywater are all locals - just like you.”



*Phil | Workplace Health & Safety Advisor
getting ready for work — Buderim 6am*



Corporate governance

Our future

Maturing as an organisation, Unitywater is set for a significant step forward

Unitywater is genuinely committed to meeting the needs of our growing population and in the next year will:

- continue to astutely invest in key capital projects including augmentations to sewage treatment plants and upgrades to other infrastructure. Capital projects for 2011-12 have been identified and costed within the Water and Services Wastewater Plan. These projects include the upgrade to the Woodford Sewage Treatment Plant and the Sewage Pumping Station at Oyster Point, Scarborough
- work towards the development of a Water and Wastewater Network Services (Netserv) Plan, a regulatory requirement due for completion by mid-2013 that will comprehensively chart operational practices, growth and investment strategies for Unitywater
- seek opportunities to drive efficiencies across the entire business
- build on providing an improved and cost-effective level of service to our customers
- continue to meet our obligations as part of the South East Queensland Water Strategy
- follow our strategic intent of economic sustainability. Unitywater's strategic horizon is formulated into three phases with the first milestone *Establish Solid Foundations* now complete. We have progressed beyond the planning and establishment phase and, in the next two years, will focus on our second phase *Ensuring the Core Business is Economically Sustainable*
- continue to recognise and uphold our environmental obligations, balancing these with our financial priorities and the pressures of population growth.

Corporate governance

Our structure

As at 30 June 2011

UNITYWATER BOARD

Jon Black
Chief Executive Officer

Antoinette Carley

General Counsel & Company Secretary*

Information and Communication Technology

Providing technology and systems across all Unitywater's operations, this Division works collaboratively towards achieving business imperatives and goals.

Mathew Thomas
Chief Information Officer

Finance and Regulatory Services

With a key focus on accounting and financial responsibilities, this Division also manages economic regulation, strategic planning and corporate performance.

Pauline Thomson
Chief Financial Officer

Infrastructure Services Division

This Division is the 'engine room' and manages the provision, maintenance and operation of infrastructure for water supply and sewerage services.

George Theo
Chief Operating Officer

Retail

With customers and their needs at its core, the Retail Division incorporates customer service, communications and marketing, revenue assurance and business analysis.

Judy Bailey
Executive Manager Retail

Workforce Capability and Change

As the human resource specialists, this Division builds the capacity of our people to achieve Unitywater's business goals.

Bruce Highfield
Executive Manager Workforce Capability & Change

Business Support Services

This is a multi-faceted Division that provides supply chain, administration, business resilience, governance and legal services in addition to coordinating the strategic consolidation program.

Glen Babington
Executive Manager Business Support Services

*Antoinette also fulfilled the role of Executive Manager Regulatory and Governance during 2010-2011





Corporate governance

Our structure

Unitywater is committed to excellence in governance. At every level in our organisation, we foster and value behaviour based on ethics and integrity.

The Northern SEQ Distributor-Retailer Authority, trading as Unitywater, was established under the *South East Queensland Water (Distribution and Retail Restructuring) Act 2009* on 3 November 2009. We operate in accordance with this Act and the *Northern SEQ Distributor-Retailer Authority Participation Agreement*.

Unitywater is jointly and wholly-owned by the Moreton Bay and Sunshine Coast councils. As a statutory authority, an independent Board guides the organisation at the highest level. An Executive Management Team, led by the Chief Executive Officer, delivers on corporate objectives.

Our Board

The Board was appointed by the Moreton Bay and Sunshine Coast councils in accordance with the Participation Agreement for Unitywater. The Board has the ultimate responsibility for how Unitywater performs its functions and exercises its powers. Collectively, the Members of the Board:

- set the strategic direction of Unitywater
- ensure Unitywater acts in accordance with the Act and achieves the objectives set out in the Participation Agreement
- review and approve the strategic plan and operational establishment plan
- ensure Unitywater implements, monitors and reports at suitable intervals on the strategic and operational establishment plans
- approve the annual budget and mid to long-term financial forecasts, including operational and capital expenditure budgets
- ensure Unitywater's operational establishment plan and budget are supportive of the strategic plan
- monitor the performance of Unitywater against appropriate performance indicators
- approve delegations to the Chief Executive Officer and identify those matters and policies reserved for approval by the Board
- review the performance of the Chief Executive Officer
- establish and determine the powers and functions of Board Committees
- approve Annual Financial Statements
- act as an interface with the Moreton Bay and Sunshine Coast councils in relation to the requirements of the Participation Agreement
- set prices for customers.

"You may never notice, but we look after a complex network 24 hours a day, 7 days a week, so your everyday needs are met."



PARAMETER	TARGET	ACHIEVED
Restoration of services within 5 hours following a Priority 1 event	>90%	99%
Number of incidents causing an unplanned interruption per 100 kilometres per year	<30	14.9

Freddy | SCADA Operator 24 hour Network Operations Control Room
— Sunshine Coast Zam



Corporate governance

Chairman's report

The work undertaken by the Unitywater Board during the past 12 months provides a solid foundation for the future of the organisation.

We have endorsed the organisation's inaugural Strategic Plan, which details our five-year vision, our key objectives and how we intend to achieve them.

A comprehensive list of initiatives has also been developed, together with an action plan to ensure we meet our statutory obligations and deliver on our commitment to the community.

The organisation is now in a consolidation phase, where we are implementing new systems and processes, and identifying economies of scale arising from Unitywater's service area, asset base and capital works program.

We had also commenced tariff reform to standardise prices across Unitywater's customer base with greater emphasis on user-pays principles.

Unfortunately, due to the constraints of our current billing systems and the State Government's decision to cap price increases at CPI, these reforms were temporarily deferred. We do, however, remain committed to these principles and intend to pursue further pricing reform as soon as practicable.

The Board has a strong commercial focus and has achieved early and significant success in identifying efficiencies and savings across the organisation.

We have implemented a governance framework to ensure we minimise costs and challenge the necessity, scale, timing and resourcing of capital expenditure to support growth and protect environmentally sensitive areas in the Moreton Bay and Sunshine Coast regions.

The Board will continue to scrutinise Unitywater's operations, including the resourcing arrangements for the business, prioritisation of activities, asset management and development, and delivery of its capital expenditure program.

Despite challenging circumstances with a changing legislative landscape as water reform in South East Queensland continues to evolve, we look back on the past 12 months with considerable pride.

We are well on our way to achieving our goal of building a strong, sustainable and industry-leading supplier of water and sewerage services.

Jim Soorley
Unitywater Chairman

31 August 2011

Corporate governance

Our Board

Our Board members skilfully combine experience and expertise in their governance and guidance of Unitywater now and into the future.

Significant achievements for the Board during 2010–2011 were the endorsement of Unitywater’s Corporate Strategic Plan and the annual budget to support its implementation.



Jim Soorley

Jim was Lord Mayor of Brisbane from 1991 to 2003, presiding over an annual budget of \$1.6 billion and a workforce of 7000. He was elected four times before stepping aside after 12 years. Jim lists changing Brisbane from a city with a ‘country town’ mentality into a vibrant urban metropolis, without compromising its liveability, as one of his greatest achievements.

Sharon Doyle

Sharon brings to Unitywater a wealth of international experience in merger, sale, acquisition and private equity processes across the infrastructure, resources and technology sectors.

Sharon is the Managing Director of Interfinancial and previously held leadership roles in national organisations in the software and professional services industries.

Megan Houghton

Megan has more than 15 years’ experience as a senior executive in the Australian energy and water industries in areas including strategy development and financial and economic performance, as well as spending four years as the head of strategy with Energex Retail. Megan was awarded the 2010 Telstra Queensland Business Woman of the Year.





Michael Arnett

Michael has extensive board and management experience in energy and professional services organisations with significant experience in the corporate, commercial, mining and resources sectors.

Bob Thorn

Bob's career has focused on the development and growth of retail businesses in Australia, including David Jones and Super Cheap Auto, of which he was CEO for 14 years. Bob Thorn served on the Unitywater Board from July 2010 to February 2011.

BOARD MEETING ATTENDANCE

The Unitywater Board met 11 times during the year.

Board Member	Eligible to attend	Meetings attended
Jim Soorley	11	11
Sharon Doyle	11	10
Megan Houghton	11	9
Michael Arnett	11	11
Bob Thorn	6	6



Corporate governance

CEO's report

Despite being a new business establishing itself, Unitywater staff have worked tirelessly to improve our customer service and transition the organisation to one that is transparent and set on a path to be recognised as an industry leading water and sewerage services business, focussed on customer service.

Having established basic controls in the establishment phase, to be accountable for services from councils including billing from 1 July 2010, Unitywater has now moved into a consolidation phase. This three-year phase involves a series of projects to deliver the business vision of improved and very efficient services. From the amalgamation of six former council water and sewerage businesses, Unitywater commenced with 13 different infrastructure control mechanisms, two rates-based billing systems, uncertain asset conditions on various asset management systems, no document handling or records system, and diverse and poorly maintained GIS data. There is significant effort and investment required to achieve a best practice utility, which is expected by our customers.

As about 70% of costs to customers are derived from infrastructure investment (pipes, pumps, reservoirs, treatment plants, control systems etc.), initial priority activity to achieve efficiencies

has been directed to the implementation of a risk-based, scalable infrastructure management assessment process to ensure prudence and efficiency. This process, now adjudicated by the independent Queensland Competition Authority, has resulted in a reduction of more than \$100 million in capital expenditure in year one alone. This has been achieved through prudent deferrals, efficient procurement through scale and improved planning.

We have already made significant progress in addressing legacy issues, particularly in relation to our financial systems, governance for capital expenditure, the implementation of a single payroll, single call centre and consolidated cloud-based ICT systems.

We have sought to improve our customer service, introducing new checks and balances including meter reading cards to boost confidence in the accuracy of readings. This effort will be complemented in 2012 by a new utility billing and customer information system, which among many features will enable customers to receive an account only a few days after their meter is read.

A significant feature of this first year of operation has been the identification and reporting by customers of water leaks internal to the property. More than 2000 leak



"You may never notice, but our profits go straight back to your local community for services like roads, parks and libraries."

rebates worth more than \$1.4 million have been processed. Unitywater will continue to encourage customers to read their own meters between billing cycles to assist in identifying concealed leaks on private property.

Filling key leadership positions has been critical to our success. We have assembled a team of experienced and dedicated professionals to direct the day-to-day operations and deliver 22 essential consolidation phase projects. Unitywater has been fortunate to have received a high quality water and sewerage service workforce from the six former council water businesses. While this has provided an easy transition, different job definitions and work practices will take some time to align and optimise.

While business consolidation and ongoing investment in our professional workforce is essential for delivering longer-term efficiencies, our priority is our customers and ensuring they have access to safe, reliable drinking water supplies and sewerage services.

While our organisation is still in its infancy, Unitywater has risen to many challenges over our first 12 months and I am extremely proud of our staff and achievements to date.

Unitywater made \$68 million in profits inclusive of \$55 million in assets gifted to Unitywater for water and sewerage infrastructure in new developments and \$39 million in developer cash contributions that is provided to co-fund trunk infrastructure. Of Unitywater's profit, \$45 million was returned to the Moreton Bay Regional Council and Sunshine Coast Regional Council by way of participation returns in addition to tax and interest payments on participant loans of more than \$90 million. The returns delivered to each Council were consistent with expectations and retained profits will enable Unitywater to reduce future borrowings for the significant investment in the region over the next 10 years.



Jon Black
Chief Executive Officer

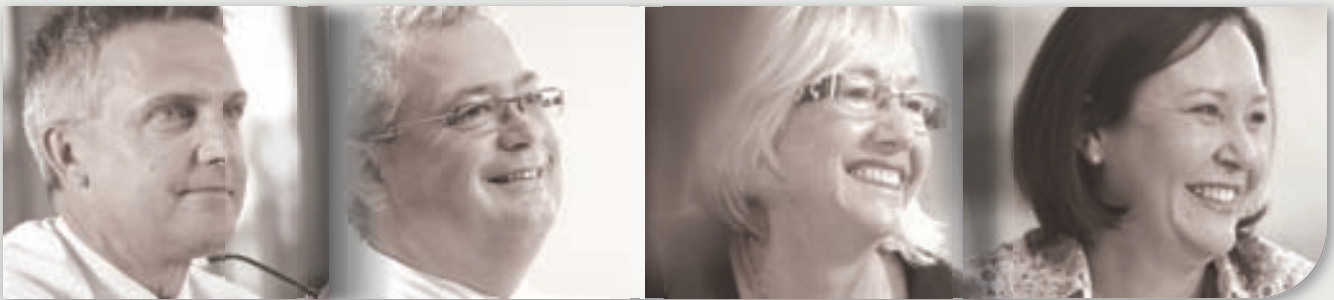
31 August 2011

Corporate governance

Executive Management Team

Taking a leadership role in the daily operations of Unitywater, our Executive Management Team drive the objectives of the Strategic Plan.

The Executive Management Team is Unitywater's senior leadership team, led by the Chief Executive Officer.



Jon Black

Chief Executive Officer

Jon draws on 30 years of management experience to be the CEO of Unitywater and a Director of the Water Services Association of Australia.

Prior to his appointments, Jon was the CEO of the now disbanded, whole-of-South East Queensland water and sewerage distribution business, as well as being the first Executive Director of The Council of Mayors in 2005.

He also spent 25 years in the Army in command and management roles, including Director of Training Management.

George Theo

Chief Operating Officer

George brings more than 25 years' experience to the role, and a wealth of knowledge of the water industry through previous roles at GHD and Brisbane Water.

As General Manager of Network Planning and Services at Brisbane Water, George was responsible for the strategic planning and delivery of water and sewerage assets for one million residents.

Judy Bailey

Executive Manager
Retail

Judy has extensive executive management experience across diverse industries in major public and private sector environments.

Responsible for managing budgets up to \$222 million, she has a successful track record in organisational strategy and change, business reform and the delivery of improved services to the community.

Pauline Thomson

Chief Financial Officer

Pauline is a Certified Practising Accountant and brings more than 20 years accounting, finance and regulatory experience from retail, distribution and transmission entities across the energy sector.

Prior to joining Unitywater, Pauline spent 10 years with ENERGEX in a range of senior commercial, finance and accounting roles, most recently as Group Manager Financial Control.





Bruce Highfield

Executive Manager
Workforce Capability
& Change

Bruce has more than 25 years' experience in human resources across the chemical, plastics, explosives, health and consumer goods industries.

Prior to joining Unitywater, Bruce worked for several years at Virgin Blue Airlines where he was the founding General Manager for Human Resources.

Mathew Thomas

Chief Information Officer

Mathew has more than 15 years' experience in Information Communications Technology (ICT) management with 10 of those years spent in utilities (energy and water). His most recent role was as Hunter Water ICT manager, through which he delivered more than \$20 million in ICT capital projects over three years and implemented service management, program management and governance frameworks.

Glen Babington

Executive Manager
Business Support Services

Glen became involved in the SEQ water industry through the formation of the SEQ Distribution Entity and Queensland Urban Utilities before joining Unitywater.

He has a background in large field-based organisations in defence and mining along with strategic planning and marketing experience in the aerospace industry.

Antoinette Carley

General Counsel and
Company Secretary

Antoinette draws on extensive public and private sector experience in water reform, systems establishment, board development and company directorship to contribute to Unitywater's Board and leadership team.

In addition to her professional legal career, Antoinette's recent leadership roles were with organisations formed in the first stage of the water reform in South-East Queensland.

Antoinette also fulfilled the role of Executive Manager Regulatory and Governance during 2010–2011.

"You may never notice, but we're replacing and upgrading fire hydrants to protect you when you need it most."



Brock | Field Worker
Fire Hydrant Replacement Program — Noosa 7am



Corporate governance

Risk management and accountability

Our observance of the many obligations that apply to Unitywater extends beyond an adherence to mandatory requirements prescribed within legislation. At Unitywater, we are committed to integrity, transparency and accountability.

Unitywater recognises that risk management is an integral part of good management and corporate governance, and supports an organisation-wide approach to identifying, prioritising and managing our risks. Our approach is aligned with the framework outlined in ISO 31000:2009, *Risk management – principles and guidelines*.

The Board established an Audit and Risk Committee and granted it responsibility to assist the Board to discharge its corporate governance responsibilities to exercise due care, diligence and skill on:

- reporting financial information
- applying accounting policies
- maintaining the independence of Unitywater's auditors
- financial management
- internal control systems (including internal audit and assurance)
- risk management
- industrial relations
- workplace health and safety
- compliance with applicable laws and regulatory requirements.

The Executive Management Team is responsible for implementing the treatments required to ensure risks are managed within the Board's directed risk tolerances and reports to the Committee on the effectiveness of internal control systems in managing Unitywater's risk profile.

The Audit and Risk Committee comprises:

- Michael Arnett (Chair)
- Sharon Doyle (Member)
- Megan Houghton (Member)
- Bob Thorn (Member until 14 February 2011).

Key achievements in 2010-2011:

- full review and enhancement of the risk management framework including the necessary alignment with the SEQ Water Grid Manager requirements
- provision of induction training and Code of Conduct Training to all staff to meet the requirements of the *Public Sector Ethics Act 1994*
- introduction of key risk related policies and procedures including those on Public Interest Disclosure and Fraud Prevention Management
- implementation of Internal Audit program (utilising the services of an independent auditor).

Unitywater is conscious of its public standing and ethical and legal responsibilities, including provisions under the *Public Sector Ethics Act 1994*, *Public Interest Disclosure Act 2010* and *Crime and Misconduct Act 2001*.

"You may never notice, but we have a small team to deliver a big service to you."



Gavin, Diane, Chris and Tenamita | Just a small part of the team that look after your water and sewage



Corporate governance

Our workforce

When Unitywater officially opened for business, a total of 777 people joined the organisation from the Moreton Bay and Sunshine Coast Regional Councils – 416 and 361 staff members respectively. Today, we have 835 employees servicing more than 270,000 customer accounts.

Workforce Planning

A key strategic objective is to integrate the Sunshine Coast and Moreton Bay Regional Councils' water businesses into a single whole-of-region business. To meet our workforce planning objectives, Unitywater has implemented a single integrated human resources and payroll system moving away from council systems. Our workforce establishment is captured and managed to ensure accurate and up-to-date organisational reporting.

Unitywater is faced with a range of workforce issues including a lack of diversity, interest in our people from the mining sector, shortage of water industry skills and long-term workers approaching retirement. We have designed our long range workforce strategy in line with our industry's future demands and are currently investing in a competency framework as the blueprint for the skills, knowledge and behaviours required to shape, grow and sustain the organisation. This ensures we employ the right people in the right roles at the right time, providing relevant, targeted and timely training and development to our workforce, and building our reputation as an industry leader by contributing to

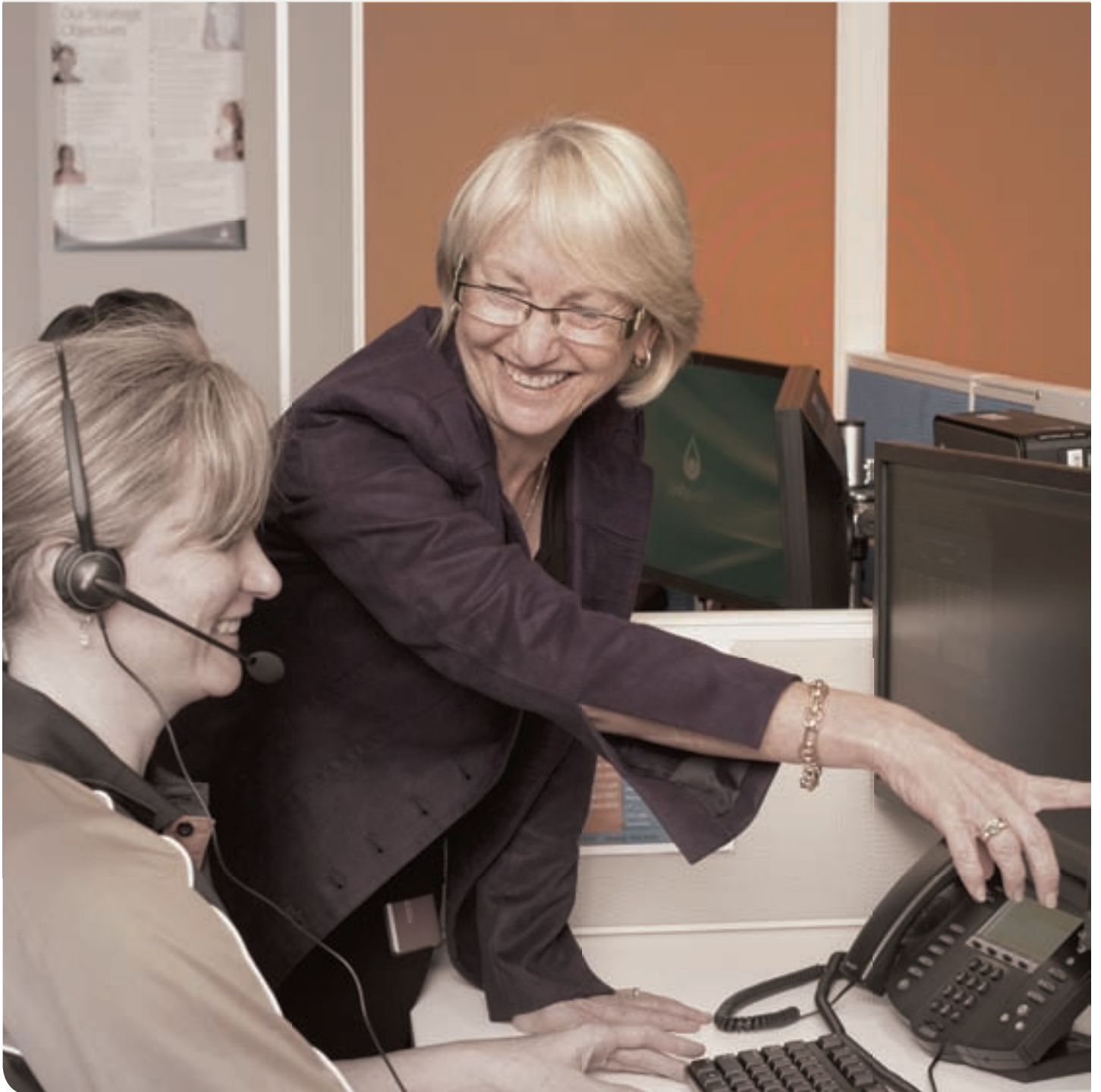
workforce development across the water industry. Our framework will link to the Australian Qualifications Framework (AQF) allowing our people to gain accredited qualifications and certifications where possible.

Attraction and Retention

In order to retain our people, roles are designed according to our business needs. Our geographic spread allows us to tap into highly skilled people seeking work in our region. Positions are advertised internally and externally to allow for internal growth. Good use is made of online and print media advertising and water industry-related sites. Our alliances with local institutions also provide greater coverage to students in our immediate areas and beyond. We also offer apprenticeship/traineeship and graduate opportunities.

Developing a new business has challenges. We promote flexible work arrangements including working from home or different locations, and the ability to part-time or job share. We also offer a nine-day fortnight for most employees and the ability to purchase extra annual leave.

"You may never notice, but our staff training is improving efficiencies which will provide you with better service."



*Judy, Executive Manager Retail with Kylee
Customer Contact Centre Supervisor — Maroochydore 10am*



Corporate governance

Employee Performance Management Framework

Unitywater has developed and implemented a formal performance management system aimed at all levels of leadership, which includes formal assessment and review of performance, along with targeted annual performance plans and detailed learning and development plans for the following year.

We have a formal employee onboarding process including corporate induction to communicate the company's key strategies and processes, enabling employees to become productive quickly.

Annual people planning sessions help us to identify our key talent within the organisation, and to recognise performance and future potential of our individuals. A succession planning matrix is used to identify capabilities for branch and section leadership roles. This helps us to shape future career paths and the future of our organisation.

Unitywater is developing its formal reward and recognition policy to acknowledge the efforts of our staff, and to regularly celebrate their achievements. This may include Chairman and CEO achievement awards, as well as programs for our front-line managers to reward staff on a regular basis.

Carer's (Recognition) Act 2008

Unitywater ensures our officers and employees have an awareness and understanding of the Carer's Charter included within the *Carer's (Recognition) Act 2008*.

Our learning and development programs are designed to shape the Unitywater leaders of tomorrow. These include:

- *Unitywater Active Leader* Program delivered to all executive, branch and section leaders
- supervisory training for all frontline managers dealing with everyday people issues
- safety leadership program to instil behavioural principles of safety and create a culture consistent with our vision for safety
- 10% of our employees gaining nationally recognised qualifications in Water Operations and through the Productivity Places Program, part of a Commonwealth Government initiative to reduce skill shortages and increase productivity
- we are also committed to supporting external study and professional development opportunities for our staff.

Industrial and Employee Relations Framework

Unitywater has an effective employee relations framework in place which involves a joint Consultative Committee. The Committee meets on a monthly basis and is currently finalising Unitywater's first single Certified Agreement.

Workforce statistics from 2010 to 2011

Employees joined	125
Employees left	98
Full-time equivalents	835
Permanent retention rate	88.4%
Permanent separation rate	11.6%

"You may never notice, but everything we do is measured, reviewed and recorded in pursuit of increased productivity."



Arron and Brock | Field workers replacing valves to improve reliability and quality of water delivered to your home — Redcliffe 11am



Corporate governance

Our operations

Information systems and record keeping

Unitywater has continued our progressive approach to the implementation of compliant record keeping systems in accordance with Information Standard - IS 40: record keeping.

We have communicated proactively with staff about their obligations including workshops, individual training and the use of fact sheets.

Unitywater has recently undertaken the Queensland State Archives - IS 40: compliance survey which provides our baseline for moving forward.

Our implementation of an electronic Documents and Records Management System (eDRMS) will fully support the organisation in ensuring reliable and secure records.

Complaints Management

In 2010-2011, Unitywater successfully worked with our customers in resolving issues with 73 matters referred to either the Queensland Ombudsman or, from January 2011, the Energy and Water Ombudsman.

Consultancies

Unitywater engaged consultants for a range of projects and specialised activities during 2010-2011.

CATEGORY	VALUE \$
Office of the CEO	\$88,354
Finance & Regulatory Services	\$611,009
Retail	\$653,711
Workforce Capability & Change	\$325,792
Infrastructure Services	\$1,979,632
Business Support Services	\$531,506
Information Communications Technology	\$1,722,577
Paramount Projects	\$1,264,698

Overseas Travel

Total expenditure on overseas travel for the reporting year was \$4400. CEO Jon Black, Executive Manager Retail Judy Bailey, Chief Information Officer Mathew Thomas and Project Manager for Customer Service Chris Fallon travelled to Auckland New Zealand incurring costs of \$1100 per person. The purpose of this study tour was to visit Watercare and a NZ based vendor for a demonstration of their billing systems and processes.

Access to information

On 1 July 2009, the *Freedom of Information Act 1992* was repealed and replaced with the *Right to Information Act 2009 (RTI)* and the *Information Privacy Act 2009 (IPA)*. This was part of the Queensland Government reforms to provide greater access to information.

The primary objective of RTI is to give the public a right of access to information held by government agencies unless, on balance, it is contrary to the public interest to provide the information. The IPA primary objectives are to provide for the fair collection and handling of personal information in the public sector and to provide a right for individuals to access and amend their personal information held by public sector entities.

Unitywater has been proactive in its approach to comply with both Acts and provides the following website to all persons interested in accessing information held or generated by Unitywater: www.unitywater.com/right-to-Information

RTI/IPA Applications received during 2010-2011	9
Applications finalised during 2010-2011	8

"You may never notice, but every time you flush the toilet we make sure it doesn't impact your environment."



Rod | Sewage Pump Station
— Bli Bli, 5.30am



Financial performance

During 2010-2011, Unitywater built a financial platform for the future. Throughout the year, we invested significant capital expenditure to:

- improve the performance and capacity of our networks; and
- ensure customer demands for the delivery of quality and reliable water supply and sewerage services were met.

Deferring of \$100 million in expenditure by introducing a robust business case regime to ensure all capital work is prudent and efficient also produced positive financial outcomes.

Most of the pricing reforms outlined by Unitywater in early 2011, which aimed to standardise tariffs, fees and charges across Moreton Bay and the Sunshine Coast and shift the emphasis to user-pays, had to be postponed due to legislative changes.

We also spent more than \$145 million on providing services to customers and maintaining water and sewerage infrastructure and delivered \$155 million in new infrastructure resulting in more than \$2.5 billion in infrastructure assets to deliver better services to customers.

2010-2011 Financial Overview

CATEGORY	\$MILLION
Total Income	474
Total Expenses	383
Total Non-Current Assets	2,744
Total Non-Current Liabilities	1,345
Net Assets	1,445
Net Operating Cash Flow	104

Key Financial Ratios

Unitywater delivered a \$68.6 million profit in 2010-2011 and will return a total of \$45 million in participation returns to the Moreton Bay Regional Council and Sunshine Coast Regional Council as well as tax and interest payments of more than \$90 million.

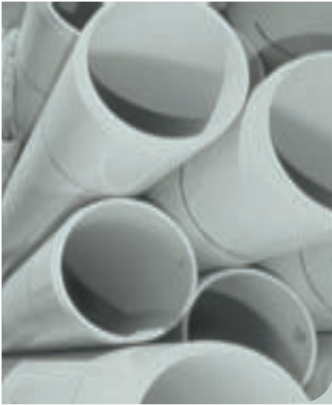
RATIO	FORMULA	VALUE
Current ratio (times)	Current Asset/Current Liability	1.44
RoTA (%)	Return on total assets = EBIT/closing assets	6.1%
ROE (%)	Return on equity = Net profit/equity	4.7%
Net debt to equity ratio (%)	Net Debt = (Loans & Borrowings less cash)/Equity	86.7%
Net Debt/Debt+ Equity (%)	Net Debt = (Loans & Borrowings less cash)/(loans & borrowings+Equity)	45.3%
EBITDA Interest Cover (times)	Earnings before interest, tax and depreciation, amortisation and impairment/borrowing costs	3.00

"You may never notice, but we're replacing assets every year to provide reliable services every day."



Paul | Field supervisor

Coordinates 30 men to replace valves and fire hydrants — Kenilworth, Midnight



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BOARD MEMBERS REPORT

The Board of The Northern SEQ Distributor-Retailer Authority trading as Unitywater (the "Authority") is pleased to submit this annual financial report of the Authority for the financial year ended 30 June 2011. The Board Members report is as follows:

Board

The names of the Board Members in office at any time during, or since the end of, the year are:

- Jim Soorley – Chairman
- Sharon Doyle
- Megan Houghton
- Michael Arnett
- Bob Thorn (Resigned 14 February 2011)

These Board Members have been in office since the start of the financial year to the date of this report, unless otherwise stated.

Please refer to the Board profiles' section of the Unitywater Annual Report 2010-11 for details of Board Members' qualifications, experience and special responsibilities.

Principal activities

The principal activities of the Authority during the financial year was sourcing and delivering a reliable water supply from the South East Queensland (SEQ) water grid to the Moreton Bay and Sunshine Coast communities including water distribution, and sewerage treatment and distribution.

Operating results

The profit of the Authority after providing for income tax equivalent, amounted to \$68,645,637 (2010: \$13,043,441 loss).

Review of operations

A review of the Authority's operations during the financial year and the results of those operations are contained in the Unitywater Annual Report 2010-11.

The Government announced on 7 April 2011 a further change to the structure of the South East Queensland water distribution and retail industry giving the Councils the chance to 'opt out' of the current distribution/retail model by resuming ownership of water infrastructure assets and by placing price caps on water and sewerage services. The Councils were requested to advise the Minister for Energy and Water Utilities of their preference by 1 July 2011 and a final decision by 1 August 2011.

Moreton Bay Regional Council and Sunshine Coast Regional Council announced in June 2011 their intention to remain with the Authority and retain the current arrangements for the retail and distribution of water supply and sewerage services.

Events after the reporting period

In the opinion of the Board Members there has not been any item, transaction or event of a material or an unusual nature that has arisen between the end of the financial year and the date of this report that is likely to significantly affect the operations of the Authority, the results of those operations or the state of affairs of the Authority, in future financial years.



Future developments

The Authority will continue to pursue its policy of delivering high quality and affordable water supply and sewerage services for customers in the Sunshine Coast and Moreton Bay regions.

Environmental regulations

The Authority's operations are subject to environmental regulations under both Commonwealth and State legislation.

The Authority's Board maintains oversight of key environmental risks and obligations and is committed to achieving a high standard of environmental performance. The Board has established appropriate governance arrangements in relation to the environment.

The Authority is responsible for the regular monitoring of environmental exposures, review of incident trends, environmental initiatives, endorsement of recommendations for environmental improvement policies, programs and investments, as well as compliance with environmental regulations.

Based on the results of enquiries made, the Board is not aware of any significant breaches during the period covered by this report.

Participation returns

Participation returns paid or declared by the Authority since the end of the 2009-10 financial year were:

	Total amount \$'000
Final 2011 participation return – operating profits	\$45,000

Refer to Note 27 of the financial statements for details of participation returns paid.

Board Members' benefits and interests in contracts

Between 30 June 2010 and 30 June 2011, no Board Member has received or become entitled to receive a benefit, other than those benefits disclosed in Note 33 of the financial statements.

Indemnification of Board Members and Officers

Indemnification of Board Members of the Authority

The Authority has agreed to indemnify Jim Soorley, Sharon Doyle, Megan Houghton, and Michael Arnett, being current Board Members of the Authority, and other former Board Members of the Authority, against all liabilities to another person (other than the Authority or a related body corporate) that may arise from their position as a Board Member of the Authority, except where the liability arises out of conduct involving a lack of good faith or liability against which the Authority is not permitted by law to exempt or indemnify the Board Member in accordance with the *South East Queensland Water (Retail and Restructuring) Act 2009*.

Indemnification of Board Members of the Authority and Officers appointed to external boards and committees

The Authority has agreed to indemnify any Board Members or Officers who are nominated by the Authority's Board to represent the Authority on external boards and committees to the extent as follows:

- Indemnities provided to former Board Members continue for seven years following their resignation from that position, in accordance with the terms of the deed of indemnity.
- Other Officers appointed to external boards and committees are indemnified in accordance with the terms of the Authority's Directors' and Officers' Liability insurance policy.

Insurance premiums

Premiums have been paid on policies of insurance for former and current Board Members and Officers. Disclosure of the nature of the liability covered by and premiums paid under these contracts of insurance is prohibited by the terms of the insurance contracts

Board Members' meetings

The numbers of meetings of the Authority's Board Members and of each Board Committee held and attended by each Board Member during the year ended 30 June 2011 were:

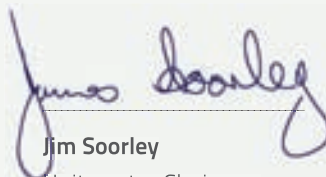
UNITYWATER	BOARD MEETINGS		COMMITTEE MEETINGS							
			Audit and risk		Retail and marketing		Nominations and remuneration		Capital works	
Board Members	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Jim Soorley – Chairman	11	11	-	-	2	3	-	-	11	11
Sharon Doyle	10	11	6	6	-	-	2	2	-	-
Megan Houghton	9	11	6	6	3	3	-	-	-	-
Michael Arnett	11	11	6	6	-	-	2	2	11	11
Bob Thorn (Resigned 14 February 2011)	6	6	3	3	3	3	-	-	6	6

Remuneration of Board Members and executives

Refer to Note 33 of the financial statements for details of Board Members' and executives' remuneration.

Rounding of amounts

Amounts in the financial report and Board Members' report have been rounded to the nearest thousand dollars, unless otherwise stated.



Jim Soorley

Unitywater Chairman

25 August 2011

Caboolture, Queensland

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$'000	2010 \$'000
Income			
Utility charges	4	350,868	-
Fees and charges	5	10,348	-
Developer contributions	6	94,439	-
Grants and subsidies	7	10,044	-
Interest revenue		2,551	-
Other revenue	8	5,454	-
Total income		473,704	-
Expenses			
Employee expenses	9	(70,135)	-
Supplies and services	10	(69,042)	(12,989)
Bulk water purchases		(67,661)	-
Depreciation and amortisation	19,20	(82,909)	-
Impairment losses	19	(152)	-
Finance/borrowing costs	11	(86,915)	-
Other expenses	12	(6,111)	(54)
Total expenses		(382,925)	(13,043)
Profit /(loss) before income tax equivalent		90,779	(13,043)
Income tax equivalent expense	13	(22,134)	-
Profit/(loss) for the year		68,645	(13,043)
Total comprehensive income for the year		68,645	(13,043)

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Notes	2011 \$'000	2010 \$'000
Current asset			
Cash and cash equivalents	14	69,707	-
Trade and other receivables	15	77,451	697
Inventories	16	2,378	-
Other	17	508	57
Total current assets		150,044	754
Non-current assets			
Deferred tax assets	18	4,358	-
Property, plant and equipment	19	2,736,226	2,160
Intangible assets	20	3,731	-
Total non-current assets		2,744,315	2,160
Total assets		2,894,359	2,914
Current liabilities			
Trade and other payables	21	85,687	15,957
Loans and borrowings	22	7,687	-
Employee benefits	23	5,459	-
Other	24	5,298	-
Total current liabilities		104,131	15,957
Non-current liabilities			
Loans and borrowings	22	1,314,529	-
Employee benefits	23	10,309	-
Deferred tax liabilities	18	20,006	-
Total non-current liabilities		1,344,844	-
Total liabilities		1,448,975	15,957
Net assets/(liabilities)		1,445,384	(13,043)
Equity			
Contributed equity	25	1,434,782	-
Retained earnings	26	10,602	(13,043)
Total equity		1,445,384	(13,043)

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Note	Retained earnings \$'000	Contributed equity \$'000	Total \$'000
Balance at 3 November 2009		-	-	-
Loss for the period		(13,043)	-	(13,043)
Total comprehensive loss for the period		(13,043)	-	(13,043)
Balance at 30 June 2010		(13,043)	-	(13,043)
Balance at 1 July 2010		(13,043)	-	(13,043)
Contributions by owners of the Authority	25	-	1,434,782	1,434,782
Participation return to owners of the Authority		(45,000)	-	(45,000)
Total contributions by and distributions to owners of the Authority		(45,000)	1,434,782	1,389,782
Profit for the year		68,645	-	68,645
Total comprehensive income for the year		68,645	-	68,645
Balance at 30 June 2011		10,602	1,434,782	1,445,384

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$'000 Inflow/(Outflow)
Cash flows from operating activities		
Receipts from customers		324,893
Developer contributions		26,952
Government grants and subsidies		4,663
Interest received		2,551
GST		24,244
Payments to suppliers		(148,208)
Employee expenses		(59,869)
Finance and borrowing costs		(64,031)
Income tax equivalent		(7,355)
Net cash provided by operating activities	14(b)	103,840
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment		809
Payments for property, plant and equipment		(165,438)
Payments for intangibles		(2,389)
Payment for establishment costs		(7,668)
Net cash used in investing activities		(174,686)
Cash flows from financing activities		
Borrowings from Queensland Treasury Corporation		125,000
Borrowings from Participating Councils		42,000
Borrowing redemptions		(5,435)
Participation return payments		(21,012)
Net cash provided by financing activities		140,553
Net increase in cash and cash equivalents		69,707
Cash and cash equivalents at beginning of the financial year		-
Cash and cash equivalents at end of financial year	14(a)	69,707

There are no comparative figures for the Statement of Cash Flows, as no cash transactions occurred during the comparative period. Expenses incurred by the Authority in the prior period were paid by the Moreton Bay Regional Council, with reimbursement by the Authority occurring in the 2010-11 financial year.

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. Reporting Authority

The Northern SEQ Distributor-Retailer Authority trading as Unitywater (the "Authority") is a Queensland statutory body under the *Financial Accountability Act 2009* and under the *Statutory Bodies Financial Arrangement Act 1982* and has been established under the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009* (The Restructuring Act).

The Authority is controlled by an independent Board under the *Northern SEQ Distributor-Retailer Authority Participation Agreement* and *The Restructuring Act* on behalf of its two participating Councils, Moreton Bay Regional Council and Sunshine Coast Regional Council.

The Authority expires at the end of 99 years from when it was established on 3 November 2009 and the Participants become the successor in law of the assets and liabilities in accordance with their participation rights at the expiry date of the Northern SEQ Distributor-Retailer Authority.

The Participant's total initial contribution to the Authority has been calculated using a regulatory asset base (RAB) valuation approved by the Queensland Government to represent the market value of the business. The assets, liabilities, and employees of the Participant Councils water distribution and sewerage operations were transferred to the Authority as a result of the Act on 1 July 2010.

The Authority is a "for profit" entity and is required to provide commercial returns to its Participants per the Participation Agreement based on each Participants share of the RAB, comprising debt and participation rights as agreed by the Councils and the Authority.

The Authority's primary activities in the local government areas of Moreton Bay and the Sunshine Coast Regional Councils include:

- a) purchase of water from the water grid manager;
- b) distribution of water;
- c) provision of water and sewerage services to customers;
- d) charge customers for these relevant services.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with:

- applicable *Australian Accounting Standards (AASBs)* (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB);
- the *Financial and Performance Management Standard 2009*;
- the *Financial Accountability Act 2009*;
- Queensland Treasury's *Financial Reporting Requirements for Queensland Government Agencies* (as applicable to statutory bodies);
- *Statutory Bodies Financial Arrangement Act 1982*; and
- other authoritative pronouncements.

The financial statements were authorised for issue by the Board on 25 August 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

2. Basis of preparation (CONT.)

(b) Basis of measurement

The financial statements have been prepared on an accrual basis and are based on historical costs except for the following:

- financial instruments are measured at fair value; and
- water and sewerage infrastructure assets including associated land and buildings are carried at fair value. Fair value is estimated using an income approach based on discounted future cash flows. In assessing fair value on this basis, a number of key assumptions are made and are discussed in Note 19.

The methods used to measure fair values are discussed further in Note 3.

(c) Presentation currency and comparatives

The financial statements are presented in Australian dollars, which is the Authority's functional currency. Amounts included in the financial statements have been rounded to the nearest thousand dollars, unless disclosure of the full amount is specifically required.

Comparative figures for 2010 are for the period 3 November 2009 to 30 June 2010 which was the initial period for the Authority.

(d) Going concern

These financial statements have been prepared on a going concern basis.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 3(a) (i)	Utility charges
Note 3(c)	Finance/ borrowing costs
Note 3(g) (iii)	Asset valuation
Note 3(i)	Impairment
Note 3(l)	Employee benefits
Note 3(o)	Income tax equivalents



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Revenue

Revenue is measured at the fair value of the consideration received or receivable net of the amount of goods and services tax (GST). Revenue is recognised when the amount can be reliably measured and it is probable that future economic benefits will flow to the Authority.

(i) Utility charges

Utility charges are recognised as revenue on an accrual basis in the period to which they relate. The Authority invoices Moreton Bay customers quarterly and Sunshine Coast customers bi-annually. The Authority accrues for volumetric water revenue based upon historical usage patterns for the period between the date of the last water meter reading and the end of the respective period.

(ii) Developer contributions

The Authority finances part of its capital works infrastructure program through non-refundable contributions from developers which are applied to the cost of these works. These contributions received may be in the form of a non cash contribution (assets) and/ or a cash contribution.

Non-cash contributions (Assets)

Non-cash contributions from developers such as water and sewerage infrastructure are recognised as revenue and as non-current assets when the Authority obtains control of the assets and becomes liable for any ongoing maintenance. These contributed assets are recognised at their fair value.

Cash contributions

Non-refundable cash contributions from developers towards the cost of water supply and sewerage infrastructure is collected by Council's on behalf of the Authority and transferred to the Authority when received. Cash contributions have been recognised as income when received by Council's as there are no performance obligations in respect of these contributions.

(iii) Grants and subsidies

Unconditional Government grants and subsidies are recognised as revenue on receipt or when it is probable that the economic benefits will flow to the Authority and the value of that benefit can be reliably measured.

(iv) Interest revenue

Interest revenue is recognised as it is earned.

(v) Other revenue

Revenue from rendering of a service is recognised as revenue upon the delivery of the service to the customers.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

(b) Bulk water purchases

Bulk water purchases consist of water purchased from the SEQ Water Grid Manager which is the sole supplier of bulk water to the Authority. The price that the Authority must pay for bulk water purchases is set by the Queensland Water Commission. Bulk water purchases are recognised as an expense in the period that the water is consumed.

(c) Finance/borrowing costs

Finance and borrowing costs comprise:

- interest expense on bank overdrafts, short-term and long-term borrowings;
- bank fees and charges.

Finance and borrowing costs are recognised as an expense using the effective interest method in the period in which they arise. Finance and borrowing costs that are not settled in the period in which they arise are added to the carrying amount of the borrowing.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank, cheques receipted but not banked, deposits held on call, other short-term highly liquid investments and bank overdrafts. Bank overdrafts are reported as part of short-term borrowings in current liabilities in the Statement of Financial Position and are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

(e) Receivables

Trade and other receivables are recognised at amounts due at the time of sale or service delivery. Trade receivables are generally due for settlement 30 days from invoice date. Other receivables are due in accordance with their contractual terms.

Collectability of trade receivables is reviewed on an ongoing basis with provision being made for impairment as a proportion of the age of the debt. Individual debts that are uncollectable are written off when identified. Movements in the provision for impairment are recognised as an expense in that period. All known bad debts were written-off at 30 June 2011.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is assigned on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition. Inventory is reviewed on a regular basis to recognise obsolescence, slow moving inventories and damaged goods. Any write down of inventories are recognised as an expense.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

(g) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Items of property, plant and equipment with a total value in excess of the following thresholds are recognised in the year of acquisition:-

Asset Type	Threshold
Land	\$1
Buildings	\$5,000
Plant and equipment – fleet	\$5,000
Plant and equipment – other	\$1,000
Infrastructure	\$1

Infrastructure assets are defined as a group of separately identifiable assets which, when considered together, are operating to achieve the objectives of the provision of a particular service. All infrastructure assets deemed to form part of a major network (for example water supply and sewerage services) will be recorded as an asset regardless of the cost of the individual asset.

(i) Acquisition of property, plant and equipment

Acquisitions of property, plant and equipment are initially recorded at cost. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including engineering design fees and all other establishment costs.

(ii) Capital and operating costs

Wage and materials expenditure incurred in the acquisition or construction of assets is treated as capital expenditure. Routine operating maintenance and repair costs to maintain the operational capacity of the asset is expensed as incurred, while expenditure that relates to replacement of a major component of an asset to maintain its service potential is capitalised.

Costs incurred subsequent to the initial asset purchase are capitalised when the expenditure improves the condition of the asset beyond its originally assessed standard of performance or capacity.

(iii) Asset valuation

Each class of property, plant and equipment is carried at fair value or cost, less where applicable, any accumulated depreciation and impairment losses. Fair value is measured in accordance with *AASB 116 Property, Plant and Equipment* and Queensland Treasury's Non-Current Asset Policies for the Queensland Public Sector and is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Water and sewerage infrastructure assets are measured at fair value using an income approach based on discounted future cash flows. Valuations are undertaken annually to ensure that the carrying value of the assets does not differ materially from that which would be determined using fair value at the end of the reporting period. As the fair value using an income approach did not differ materially from carrying value for these assets the Board determined to leave the infrastructure assets at their carrying value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

Land and building assets include properties utilised for warehousing and logistics purposes and field response activities. These properties are equipped with specialised facilities to meet the specific needs of the infrastructure services operations. As these land and building assets are integral in supporting the operation of the water and sewerage infrastructure assets and form part of the regulated asset portfolio subject to price monitoring regulation, they are included as water and sewerage infrastructure assets at 30 June 2011.

Other property, plant and equipment and work in progress are carried at cost. The carrying amount for these assets at cost should not differ materially from their fair value.

(iv) Capital work in progress

The cost of property, plant and equipment being constructed includes the cost of purchased services, materials, direct labour and an appropriate proportion of overheads attributable to bringing assets into service.

(v) Depreciation

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and commissioned ready for use. Land is not depreciated as it has an unlimited useful life.

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of each item of property, plant and equipment.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate and are depreciated accordingly. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset.

Major spares purchased specifically for particular assets are capitalised and depreciated on the same basis as the asset to which they relate.

Depreciation methods, estimated useful lives and residual values of property, plant and equipment are reviewed annually and adjusted if appropriate.

The estimated useful lives for each class of depreciable assets are:

Class of fixed asset	Useful life
Buildings and land improvements	20 – 60 years
Infrastructure assets	
Water infrastructure assets	10 – 80 years
Sewerage infrastructure assets	15 – 150 years
Plant and equipment	
Motor vehicles	2 – 4 years
Heavy equipment	4 – 15 years
Office and IT equipment	5 years

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

(vi) Gains and losses on disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset at the time of disposal. These gains and losses are included in the Statement of Comprehensive Income.

(h) Intangible assets

Intangible assets with a cost greater than \$1,000 are capitalised. Subsequent expenditure is capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

Intangible assets are recognised and carried at cost less accumulated amortisation and accumulated impairment losses.

(i) Computer software

Costs associated with the development of computer software have been capitalised and are amortised on a straight-line basis over its estimated useful life.

The cost of internally generated computer software includes the cost of all materials and direct labour used during development of the software and other costs directly attributable to the asset. Capitalisation commences from the point of Board approval and ceases when the software is available for use.

(ii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The useful lives of intangible assets are reviewed annually and adjusted if appropriate.

The estimated useful lives are:

Class of intangible asset	Useful life
Computer software	5 - 10 years

(i) Impairment

The carrying amounts of the Authority's non-current assets are reviewed annually to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

The recoverable amount of an asset is the higher of its net selling price (fair value less costs to sell) and the value to be realised through using the assets (value in use). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value of the Authority's assets has been estimated using an income based approach and assessed against recoverable amount - Refer Note 19.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

Impairment losses are recognised as an expense unless the asset is carried at a revalued amount. When the asset is measured at a revalued amount, the impairment loss is offset against the asset revaluation reserve of the relevant asset to the extent available.

An impairment loss is reversed when there is an indication the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Payables

Trade and other payables represent the value of goods and services provided to the Authority prior to the end of the financial year that remain unpaid. Trade and other payables are recognised upon receipt of the goods or services ordered and are measured at the agreed purchase price less any applicable discounts. Amounts owing are unsecured and are generally settled on 30 day terms or as contractually required.

(k) Financial instruments

Financial instruments are recognised initially at fair value when the related contractual rights or obligations exist. Subsequent to initial recognition these financial instruments are measured as described below.

Financial assets are derecognised if the contractual rights to the cash flows from the financial assets expire or if the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the obligations specified in the contract expire or are discharged or cancelled.

Financial instruments are classified and measured as follows:

- Cash and cash equivalents - held at fair value through profit or loss;
- Receivables - held at amortised cost;
- Payables - held at amortised cost;
- Borrowings - held at amortised cost.

Borrowings are initially recognised at fair value, plus any transaction costs directly attributable to the borrowings, and then subsequently held at amortised cost using the effective interest method. Any borrowing costs are added to the carrying amount of the borrowing to the extent that they are not settled in the period in which they arise.

Principal repayments for debt funding with Queensland Treasury Corporation and the Participating Councils are due at the end of the life of the loans as per their terms and conditions. Principal repayments for the working capital facilities are made throughout the life of the facility in accordance with the schedule of repayments.

The Authority does not enter into transactions for speculative purposes, or for hedging. Apart from cash and cash equivalents, the Authority holds no financial assets classified at fair value through profit or loss.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

(l) Employee benefits

A liability is recognised for benefits accruing to employees for salaries and wages, annual leave, leave in lieu, vesting sick leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Current liabilities recognised for employee benefits expected to be settled within twelve months are measured at their nominal value using current remuneration rates and related on-costs.

A non-current liability is recognised for employee benefits where there is an unconditional right to defer settlement for more than twelve months. The benefits are measured at the present value of the estimated future cash flows to be made by the Authority for services provided by employees up to the end of the reporting period. These cash flows are discounted using rates attaching to government bonds at the end of the reporting period which most closely match the terms of maturity of the related liabilities.

(i) Salaries and wages

A liability for salaries and wages is recognised and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Annual leave

A liability for annual leave accrued up until the end of the reporting period is recognised and is based on current salary and wage levels and includes related employee on-costs.

(iii) Leave in lieu

A liability for leave in lieu is accrued up until the end of the reporting period and represents the amount unpaid at the reporting date at current pay rates and includes related employee on-costs.

(iv) Sick leave

The Authority has both vesting and non-vesting sick leave.

Vesting sick leave entitlements accumulated to some employees that transferred from Moreton Bay Regional Council with seven or more years of service. These employees are entitled to a payment for a percentage of their unused sick leave on termination, resignation or retirement. A liability for a percentage of this accumulated vesting sick leave is measured at the present value of the estimated future cash outflows and includes related employee on-costs.

Prior history indicates that on average, non-vesting sick leave taken each reporting period is less than the entitlement accrued. This is expected to continue in future periods. Accordingly, it is unlikely that existing accumulated entitlements will be used by employees and no liability for unused non-vesting sick leave entitlements is recognised. An expense is recognised for this leave as taken.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

(v) Long service leave

A current liability is recognised for long service leave entitlements when staff have achieved the required seven years of service. The liability is calculated at undiscounted amounts based on current remuneration rates and related on-costs that the Authority is obligated to pay as at reporting date. Amounts that the Authority does not have a present obligation to pay as at the reporting date are discounted to present value.

A non-current liability is recognised for long service leave entitlements for staff who have not yet achieved seven years of service. This liability is calculated using current remuneration rates, projected future remuneration rates and related on-costs. The estimates are adjusted for the probability of the employee remaining in the Authority's employment and the result is discounted to present value.

(vi) Superannuation schemes

The Authority contributes to LG Super for employees under both defined benefit scheme and accumulation superannuation scheme. The Authority has no liability to or interest in LG Super other than the payment of the statutory contribution. Contributions are expensed when incurred. Refer Note 28.

(vii) Key executive management personnel and remuneration

Key executive management personnel and remuneration disclosures are made in accordance with the section 5 Addendum to the Financial Reporting Requirements for Queensland Government Agencies issued by the Queensland Treasury Department. Refer to Note 33.

(m) Leases

Leases in which the Authority assumes all of the risks and rewards of ownership are classified as finance leases. The Authority as a statutory body cannot enter into a finance lease without the approval of the Queensland Treasurer and at the end of the reporting date had no finance leases.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and are not recognised in the Authority's Statement of Financial Position. Operating lease payments are expensed in the period incurred and is representative of the pattern of benefits derived over the lease term.

(n) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flow on a gross GST basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

(o) Income tax equivalents

The Authority is subject to the Local Government Tax Equivalents Regime (LGTER). Under the LGTER the Authority is required to make income tax equivalent payments to the Participating Councils in accordance with the requirements of its Participation Agreement.

Income tax equivalent expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, at tax rates applicable to the income tax year, less any instalments paid and any adjustment to tax payable in respect of the previous year.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse. A deferred tax asset is recognised for unused tax losses, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Participation returns

The Participating Councils (Moreton Bay and Sunshine Coast Regional Councils) are required by the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2010* (The Restructuring Act) to enter into an agreement (a Participation Agreement) to determine each entity's Participation Rights in the Authority. The Participation Agreement specifies the Participants' Rights to participate in a distribution of profits of the Authority in proportion to the percentage set out next to the Participants name in the Register of Participation Rights.

During the period from 15 March to 15 April in each financial year the Authority must give to the Participants-

- (i) An estimate of the Authority's net profit for the financial year; and
- (ii) The amount of the Participation return to be paid for the financial year, including the amount payable for different Participation Rights.

A provision is made for the amount of any Participation return declared by the Board on or before the end of the financial year but not distributed at the end of the reporting period. A liability for Participation return payable is recognised in the reporting period in which the returns are declared for the entire undistributed amount.

The final Participation return for the year ended 30 June 2011 was declared on 23 June 2011. Refer Note 27 for details on Participation return payments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

(q) New and revised accounting standards

The Authority did not voluntarily change any of its accounting policies during 2010-11. Only one amendment to an Australian accounting standard applicable for the first time for 2010-11 was relevant to the Authority, as explained below.

AASB 2009 – 5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project included certain amendments to *AASB 117 Leases* that revised the criteria for classifying leases involving land and buildings. Consequently, the Authority was required to reassess the classification of the land elements of all unexpired leases the Authority had at 1 July 2010, on the basis of information existing at the inception of the relevant leases.

The outcome of the Authority's reassessment was that no reclassification from an operating lease to a finance lease was necessary.

The Authority is not permitted to early adopt a new or amended accounting standard ahead of the specified commencement date unless approval is obtained from Queensland Treasury. Consequently, the Authority has not applied any Australian accounting standards and interpretations that have been issued but are not yet effective. The Authority applies standards and interpretations in accordance with their respective commencement dates.

At the date of authorisation of the financial report, significant impacts of new or amended Australian accounting standards with future commencement dates are as set out below.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] becomes effective from reporting periods beginning on or after 1 January 2011. The Authority will then need to make changes to its disclosures about credit risk on financial instruments in Note 29(b). No longer will the Authority need to disclose amounts that best represent an entity's maximum exposure to credit risk where the carrying amount of the instruments reflects this. If the Authority holds collateral or other credit enhancements in respect of any financial instrument, it will need to disclose - by class of instrument - the financial extent to which those arrangements mitigate the credit risk. There will be no need to disclose the carrying amount of financial assets for which the terms have been renegotiated, which would otherwise be past due or impaired.

Also, for those financial assets that are either past due but not impaired, or have been individually impaired, there will be no need to separately disclose details about any associated collateral or other credit enhancements held by the Authority.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

3. Significant accounting policies (CONT.)

AASB 9 *Financial Instruments (December 2010)* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] become effective from reporting periods beginning on or after 1 January 2013. The main impacts of these standards on the Authority are that they will change the requirements for the classification, measurement and disclosures associated with financial assets. Under the new requirements, financial assets will be more simply classified according to whether they are measured at either amortised cost or fair value. Pursuant to AASB 9, financial assets can only be measured at amortised cost if two conditions are met. One of these conditions is that the asset must be held within a business model whose objective is to hold assets in order to collect contractual cash flows. The other condition is that the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial application of AASB 9, the Authority will need to reassess the measurement of its financial assets against the new classification and measurement requirements, based on the facts and circumstances that exist at that date. Assuming no change in the types of transactions the Authority enters into, it is not expected that any of the Authority's financial assets will meet the criteria in AASB 9 to be measured at amortised cost. Therefore, as from the 2013-14 financial statements, all of the Authority's financial assets will be required to be classified as "financial assets required to be measured at fair value through profit or loss" (instead of the measurement classifications presently used in Notes 3(k) and 29. The same classification will be used for net gains/losses recognised in the Statement of Comprehensive Income in respect of those financial assets. In the case of the Authority's receivables, the carrying amount is considered to be a reasonable approximation of fair value.

AASB 1053 *Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129, & 1052] apply to reporting periods beginning on or after 1 July 2013. AASB 1053 establishes a differential reporting framework for those entities that prepare general purpose financial statements, consisting of two tiers of reporting requirements – Australian Accounting Standards (commonly referred to as "tier 1"), and Australian Accounting Standards – Reduced Disclosure Requirements (commonly referred to as "tier 2").

Tier 1 requirements comprise the full range of AASB recognition, measurement, presentation and disclosure requirements that are currently applicable to reporting entities in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier 1. AASB 2010-2 sets out the details of which disclosures in standards and interpretations are not required under tier 2 reporting.

Pursuant to AASB 1053, public sector entities like the Authority may adopt tier 2 requirements for their general purpose financial statements. The Authority does not intend to adopt tier 2 reporting requirements. In compliance with Treasury's policy which prohibits the early adoption of new or revised accounting standards unless Treasury approval is granted, the Authority has not early adopted AASB 1053.

All other Australian accounting standards and interpretations with future commencement dates are either not applicable to the Authority's activities, or have no material impact on the Authority.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
4. Utility charges		
Water charges	160,255	-
Sewerage charges	190,613	-
	350,868	-
5. Fees and charges		
User fees and charges	8,786	-
Other fees and charges	1,562	-
	10,348	-
6. Developer contributions		
Developer contributions – assets	55,132	-
Developer contributions – cash	39,307	-
	94,439	-
7. Grants and subsidies		
Government grant	4,663	-
Subsidies	5,381	-
	10,044	-
8. Other revenue		
Private works	3,115	-
Rent revenue	459	-
Other revenue	1,880	-
	5,454	-
9. Employee expenses		
Wages and salaries	60,077	-
Employer superannuation contribution	5,329	-
Payroll tax	2,842	-
Board Members fees	314	-
Other employee expenses	1,573	-
	70,135	-

The number of employees including both full time and part time employees measured on a full time equivalent basis are:

Number of employees	835	13
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
10. Supplies and services		
Materials and services	61,467	6,917
Consultants and contractors	7,177	6,072
Other supplies and consumables	398	-
	69,042	12,989
11. Finance/borrowing costs		
Interest costs	86,350	-
Other financial costs	565	-
	86,915	-
12. Other expenses		
Insurance	2,032	-
Audit fees	380	40
Regulatory fees	729	-
Impairment of trade receivables	1,752	-
Loss on disposal of assets	920	-
Other	298	14
	6,111	54

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
13. Income tax equivalents		
Income tax equivalents recognised in the Statement of Comprehensive Income		
Current tax expense		
Current income tax charge	6,486	-
Adjustments for current income tax of prior year	-	-
Current tax expense	6,486	-
Deferred tax expense		
Current income tax charge	19,561	-
Adjustments for current income tax of prior year	(3,913)	-
Deferred tax expense	15,648	-
Income tax equivalents recognised in the Statement of Comprehensive Income	22,134	-
Reconciliation of effective tax rate		
Profit (loss) before income tax equivalent	90,779	(13,043)
Income tax equivalent expense at 30%	27,234	(3,913)
Recognition of previously unrecognised temporary differences	(2,841)	-
Recognition of previously unrecognised deferred tax assets for losses	(1,072)	-
Current year losses for which no deferred tax asset was recognised	-	1,072
Non deductible expenses	4	-
Change in unrecognised temporary differences subject to initial recognition exemption	(1,191)	2,841
Income tax equivalent expense	22,134	-



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
14. Cash and cash equivalents		
(a) Cash and cash equivalents		
Cash on hand	4	-
Bank balances	59,674	-
Short term deposits	10,029	-
Cash and cash equivalents in the Statement of Cashflows	69,707	-
(b) Reconciliation of cash flows from operating activities		
Cash flows from operating activities		
Profit for the year	68,645	-
Adjustments for:		
Depreciation	82,608	-
Amortisation of intangible assets	453	-
Assets written off	1,347	-
Donated assets	(55,132)	-
Gain on sale of non current assets	(427)	-
Doubtful debts expenses	1,752	-
Change in assets and liabilities		
Change in trade and other receivables	(57,762)	-
Change in inventories	346	-
Change in GST receivable	20,459	-
Change in trade and other payables	2,604	-
Change in provisions and employee benefits	1,285	-
Change in interest payable	22,883	-
Change in income tax provision	14,779	-
Net cash from operating activities	103,840	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

15. Trade and other receivables	2010 \$'000	2011 \$'000
Current		
Trade debtors	15,582	-
Less: Provision for impairment	(1,635)	-
	13,947	-
GST receivable	3,786	697
Receivables from Participating Councils	12,356	-
Income tax equivalent receivable	869	-
Accrued revenue	46,493	-
Total	77,451	697

Trade debtors are interest bearing once they become due. Receivables from Participating Councils consists of developer contributions collected by the Participating Councils that are payable to the Authority.

Movements in the provision for impairment loss

Balance at 1 July	-	-
Increase in allowance	1,635	-
Balance at 30 June	1,635	-

16. Inventories

Stores	2,378	-
Total	2,378	-

17. Other current assets

Prepayments	508	57
Total	508	57

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

18. Tax assets and liabilities

(a) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Property, plant and equipment	-	-	(20,006)	-	(20,006)	-
Employee benefits	1,634	-	-	-	1,634	-
Other provisions and accruals	602	-	-	-	602	-
Formation costs	2,119	-	-	-	2,119	-
Other items	3	-	-	-	3	-
Tax asset/(liability)	4,358	-	(20,006)	-	(15,648)	-
Set off	(4,358)	-	4,358	-	-	-
Net tax asset/(liability)	-	-	(15,648)	-	(15,648)	-

(b) Deferred tax assets and liabilities have not been recognised in respect of the following:

	Assets		Liabilities		Net	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Depreciating assets transferred from Councils on 1 July 2010	-	-	(2,364)	-	(2,364)	-
Employee provisions transferred from Councils on 1 July 2010	3,116	-	-	-	3,116	-
	3,116	-	(2,364)	-	752	-
	(2,364)	-	2,364	-	-	-
	752	-	-	-	752	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

19. Property, plant and equipment

	Land	Buildings	Infrastructure	Plant and equipment	Work in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 3 November 2009	-	-	-	-	-	-
Additions	-	-	-	-	2,160	2,160
Carrying amount at 30 June 2010	-	-	-	-	2,160	2,160
Balance at 1 July 2010	-	-	-	-	2,160	2,160
Transferred from Participating Councils	47,682	10,883	2,325,565	18,927	205,130	2,608,187
Additions	-	-	-	-	155,224	155,224
Transfers from work in progress	520	513	113,843	9,044	(123,920)	-
Contributed assets	-	-	55,132	-	-	55,132
Disposals	-	(666)	(682)	(382)	(139)	(1,869)
Balance at 30 June 2011	48,202	10,730	2,493,858	27,589	238,455	2,818,834
Depreciation and impairment losses						
Balance at 1 July 2010	-	-	-	-	-	-
Depreciation	-	167	79,163	3,126	-	82,456
Impairment	-	-	152	-	-	152
Balance at 30 June 2011	-	167	79,315	3,126	-	82,608
Carrying amount at 30 June 2011	48,202	10,563	2,414,543	24,463	238,455	2,736,226

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

19. Property, plant and equipment (CONT.)

(a) Key assumptions used for fair value assessment

The Authority's water and sewerage infrastructure assets including associated land and buildings are carried at fair value. The fair value of infrastructure assets at 30 June 2011 has been determined independently by PricewaterhouseCoopers using the 'income approach' based on discounted cash flows. The following significant assumptions were used in determining fair value:

- Revenue cash flows reflect CPI capped prices for 2011-12 and 2012-13 financial years and an assumption that a purchaser of the assets would achieve Maximum Allowable Revenue (MAR) from the 2013-14 financial year which may not reflect the price path adopted by the Authority and the Participating Councils;
- Cash flows have been projected based on forecasts of prudent and efficient operating and capital expenditure;
- Growth capital expenditure has been excluded from the cash flows except for capital expenditure required as replacement expenditure;
- Post-tax cash flows have been projected over a ten year term and on a basis consistent with Queensland Competition Authority's approach, whereby the tax deductibility of debt and imputation credits are reflected in the projected cash flows, rather than the discount rate. The projected cash flows have been discounted at a rate of 8.25%;
- The terminal value has been estimated from normalised cash flows and growth based on a long term inflation rate of 3%.

The Board has determined that as the fair value of property plant and equipment, excluding capital work in progress, is not materially different from the historical cost basis of \$2.5 billion, the net carrying amount of the water and sewerage infrastructure assets is reflective of fair value at 30 June 2011.

(b) Key assumptions used for impairment assessment

Following assessment of the fair value, the Authority undertook an impairment review to determine the recoverable amount. The present value of future cash flows and the following key assumptions were used in deriving the recoverable amount based on the assets value-in-use:

- The Authority treats its business activities as a single cash generating unit for the purposes of impairment testing;
- The same assumptions have been applied to determining the fair value (refer Note 19 (a)) apart from the following assumptions which are considered to be more appropriate for a value in use assessment:
 - Revenue cash flows reflect CPI capped prices for 2011-12 and 2012-13 financial years and are followed by a price path to achievement of Maximum Allowable Revenue by 2021; and
 - For impairment purposes a discount rate of 8.2% has been applied to post-tax nominal cash flows reflecting the Authority's actual gearing of 45% debt and 55% equity.

The carrying amount of the asset does not exceed the recoverable amount derived using these assumptions and therefore no impairment has been recorded at 30 June 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

19. Property, plant and equipment (CONT.)

(c) Impact of possible changes in key assumptions

The values assigned to the key assumptions for fair value and recoverable amount assessment represent the Authority's assessment of future trends in the water industry, including the continued application of the building block methodology currently applied by the Queensland Competition Authority under Price Monitoring of the South East Queensland Distributor-retailers, and are based on both external and internal sources, including principles outlined in Council price mitigation plans. As outlined in Note 19(b) a conservative price path has been assumed for 10 years consistent with information currently available to the Authority.

In June 2011, the Fairer Water Prices for SEQ Amendment Bill 2011 was passed by the Queensland Government. This legislation requires the Participating Councils to develop and publish final price paths for water and sewerage charges for residential and small customers by 30 March 2013 for the period 1 July 2013 to 30 June 2019. These price paths will be developed in a collaborative manner between Participating Councils and in consultation with the Authority.

As a result of this process the cash flows from the price paths to be developed may differ from the cash flows based on the price path currently included in the impairment model. The price paths have not yet reached a stage of development that allows an assessment of the difference, if any, between the price paths as included in the impairment model and the price paths that are to be developed by the Participating Councils.

Accordingly, as at the date of this report the impact, if any, that a difference in price paths may have on the assessment of impairment cannot yet be determined.

20. Intangible assets

	Software	Work in progress	Total
	\$'000	\$'000	\$'000
Cost			
Balance at 1 July 2010	-	-	-
Transferred from Participating Councils	507	-	507
Additions	-	3,677	3,677
Transfers from work in progress	2,389	(2,389)	-
Balance at 30 June 2011	2,896	1,288	4,184
Amortisation			
Balance at 1 July 2010	-	-	-
Amortisation	453	-	453
Balance at 30 June 2011	453	-	453
Carrying amount at 30 June 2011	2,443	1,288	3,731

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
21. Trade and other payables		
Current		
Trade creditors	17,104	7,668
Participation return payable	23,988	-
Interest payable	22,883	-
Accrued expenses	14,073	-
Council charges	7,224	-
Share of interim entity's establishment costs	-	5,815
Other	415	2,474
Total	85,687	15,957

Council charges consist of volumetric water charges and sewerage charges that the Authority is responsible for collecting from customers of the Moreton Bay and Sunshine Coast Regional Councils. The usage relates to periods prior to 1 July 2010 when the Authority's customers were provided water and sewerage services by the Councils. These amounts were billed after 1 July 2010 by the Authority and funds are remitted to the respective Councils once received from the customer.

22. Loans and borrowings

(a) Composition of loans

Current		
Participating Councils		
Working capital	7,687	-
Total	7,687	-
Non-current		
Participating Councils		
Working capital	28,877	-
Senior debt	644,807	-
Subordinated debt	515,845	-
Queensland Treasury Corporation		
Loans	125,000	-
Total	1,314,529	-

No assets have been pledged as security for any liabilities. All borrowings are in Australian dollar denominated amounts and carried at amortised cost, interest being expensed as it accrues. There have been no defaults or breaches of the loan agreement during the year. On 1 July 2010 working capital loan facilities were drawn down from the Participating Councils. These are on commercial terms at 6.79% per annum.

The weighted average rate of borrowings at 30 June 2011 is 6.96%. Interest payments are made quarterly in arrears at rates ranging from 6.22% to 7.51%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

22. Loans and borrowings (CONT.)

(b) Financing arrangements at balance date

The Authority has access available at balance date to the following facilities:

	2011 \$'000	2010 \$'000
Bank overdraft	50	-
Credit card	750	-
Working capital	36,565	-
Loans	1,386,652	-
	1,424,017	-

Facilities utilised at balance date:

Bank overdraft	-	-
Credit card	37	-
Working capital	36,564	-
Loans	1,286,792	-
	1,323,393	-

Facilities not utilised at balance date:

Bank overdraft	50	-
Credit card	713	-
Working capital	-	-
Loans	99,861	-
	100,624	-

The utilised loan facility amount consists of the principal amount plus accrued interest and administration charges which are added to the loan facility until paid.

23. Employee benefits

Current

Annual leave	3,770	-
Long service leave	534	-
Rostered days off	499	-
Other employee entitlements	656	-
Total	5,459	-

Non-current

Annual leave	2,620	-
Long service leave	7,689	-
Total	10,309	-

Refer to Note 28 for details of the amount of superannuation contributions paid by the Authority for the benefit of the employees to their respective superannuation plans.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

24. Other current liabilities	2011 \$'000	2010 \$'000
Unearned revenue	4,317	-
Security deposits and retentions	927	-
Other payables	54	-
Total	5,298	-

25. Contributed equity

On 1 July 2010, the two Participating Councils transferred their water businesses to the Authority. The transfer comprised assets, liabilities and employees of the Participant Councils water distribution and sewerage operations.

On 30 May 2011, the Minister for Energy and Water Utilities advised the Authority and the Participating Councils of the final determination of the Authority's Regulated Asset Base (RAB) at 1 July 2010. An amended Participation Agreement was submitted to the Minister on 1 July 2011 reflecting each Councils Participation rights based on the value of each Participating local government's contribution to the RAB. The contribution to RAB by each Participating local government and allocation of participation rights are as follows:

Total Participation RAB made up of:	Moreton Bay Regional Council	Sunshine Coast Council	Total
	\$'000	\$'000	\$'000
Debt (45%)	683,665	490,247	1,173,912
Equity (55%)	835,591	599,191	1,434,782
Total Participation RAB 1 July 2010	1,519,256	1,089,438	2,608,694
Contributed equity %	58.24%	41.76%	100%
Net liabilities transferred from Participants	(6,640)	(6,621)	(13,261)
Net assets transferred from Participants	1,512,616	1,082,817	2,595,433

26. Retained earnings

	2011 \$'000	2010 \$'000
Retained earnings at 1 July 2010	(13,043)	-
Profit/(loss) for the year	68,645	(13,043)
Participation returns paid or provided for	(45,000)	-
Retained earnings at 30 June 2011	10,602	(13,043)

27. Participation returns

The following participation returns have been paid or are payable at 30 June 2011:

Moreton Bay Regional Council	26,208	-
Sunshine Coast Regional Council	18,792	-
Total	45,000	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

28. Superannuation

Local government superannuation scheme – LG Super

The Authority contributes to the Local Government Superannuation Scheme (QLD) (the scheme). The scheme is a multi-employer plan as defined in the Australian Accounting Standard *AASB119 Employee Benefits*.

The Queensland Local Government Superannuation Board, the trustee of the scheme, advised that the local government superannuation scheme was a complying superannuation scheme for the purpose of the Commonwealth Superannuation Industry (Supervision) legislation.

The scheme has two elements referred to as the Defined Benefits Fund (DBF) and the Accumulation Benefits Fund (ABF). The ABF is a defined contribution scheme as defined in *AASB 119*. The Authority has no liability to or interest in the ABF other than the payment of the statutory contributions as required by the *Local Government Act 2009*.

The DBF is a defined benefit plan as defined in *AASB119*. The Authority is not able to account for the DBF as a defined benefit plan in accordance with *AASB119* because the scheme is unable to account to the Authority for its proportionate share of the defined benefit obligation, plan assets and costs.

Any amount by which either fund is over or under funded would only affect future benefits and contributions to the DBF, and is not an asset or liability of the Authority. Accordingly there is no recognition in the financial statements of any over or under funding of the scheme.

The audited general purpose financial report of the scheme at 30 June 2010 (the most recent available) which was not subject to any audit qualification, indicates that the assets of the scheme are sufficient to meet the vested benefits.

The most recent actuarial assessment of the scheme was undertaken at 1 July 2009. The actuary indicated that "the DBF is in a very modest financial position with regard to the net asset coverage of vested liabilities. Investment returns will be volatile under the required investment strategy, particularly over short periods. The DBF therefore needs sufficient reserves to be able to withstand a reasonable range of such influences. Because the DBF is now running down and cash flows are negative, the vested benefit index (VBI) should not be allowed whenever possible to retreat below 100%. Once below 100%, benefits drawn reduce the available assets for remaining members and hence the net asset coverage of vested benefits declines further.

In order to withstand a one in ten 'low return' outcome, the DBF would need reserves of the order of 8% to 10% having regard to the investment strategy adopted. Given the current position of the DBF, such reserve can essentially only eventuate from either excess investment returns over salary increases or additional employer contributions. The Authority has been advised by the trustee of the scheme, following advice from the scheme's actuary, that additional contributions may be imposed in the future at a level necessary to protect the entitlements of DBF members. Under the *Local Government Act 2009* the trustee of the scheme has the power to levy additional contributions on councils which have employees in the DBF when the actuary advises such additional contributions are payable - normally when the assets of the DBF are insufficient to meet members' benefits.

The next actuarial investigation will be made at 1 July 2012.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

28. Superannuation (CONT.)

The amount of superannuation contributions by superannuation plan type paid by the Authority is as follows:

	2011 \$'000	2010 \$'000
Superannuation plan		
Defined benefit fund	1,306	-
Accumulation benefit fund	4,705	-
Total	6,011	-

A portion of the above Superannuation contributions paid related to work performed on capital projects which has been capitalised. The amount recognised as an expense during the financial year is \$5,329,489.

29. Financial instruments

Financial risk management

Overview

The Authority's activities expose it to a variety of financial risks including credit risk, liquidity risk, market risk, interest rate risk and operational risk.

Risk management framework

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board on its activities.

Exposure to financial risks is managed in accordance with the Authority's approved policies on financial risk management. These policies focus on managing the volatility of financial markets and seek to minimise potential adverse effects on the financial performance of the Authority. The Authority measures risk exposure using a variety of methods as follows:

Risk Exposure	Measurement Method
Credit risk	Ageing analysis
Liquidity risk	Maturity analysis
Interest rate risk	Sensitivity analysis

Credit risk

Credit risk is the risk of financial loss to the Authority if a customer or another party fails to meet its obligations. The Authority is exposed to credit risk through its customers, investments with the Queensland Treasury Corporation (QTC) and deposits held with banks. The Authority has a concentration of credit risk from receivables due from its customers.

The QTC Cash Fund is an asset management portfolio with investments in a wide variety of high credit rating counterparts. Deposits are capital guaranteed. Other investments are held with regulated financial institutions that have a credit rating of at least A+.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

29. Financial instruments (CONT.)

Liquidity risk

Liquidity risk is the risk that the Authority may encounter difficulty in meeting obligations associated with financial liabilities. The Authority is exposed to liquidity risk through its trading in the normal course of business and borrowings from the QTC for asset acquisitions and capital works and from Moreton Bay and Sunshine Coast Regional Councils for its working capital requirements. The Authority manages its exposure to liquidity risk by maintaining sufficient cash deposits and undrawn facilities, both short and long term, to cater for unexpected volatility in cash flows.

Market risk

The Authority does not trade in foreign currency and is not materially exposed to commodity price ranges. The Authority is exposed to interest rate risk through its borrowings from QTC and cash deposited in interest bearing accounts. The Authority manages that part of its portfolio by setting, monitoring and adjusting the terms and duration of its loan portfolio as allowed under its commercial financing contract with QTC.

Interest rate risk

The Authority is exposed to interest rate risk through its borrowings and investment with QTC and cash deposited in interest bearing accounts. The risk in borrowing is effectively managed by borrowing from financial institutions which provide access to floating funding sources such that the desired interest rate risk exposure can be constructed.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Authority's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Authority's operations.

The Authority's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Authority's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Training and professional development;
- Risk mitigation, including insurance where this is effective.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

29. Financial instruments (CONT.)

(a) Categorisation of financial instruments

The Authority has the following categories of financial assets and financial liabilities:

Category	Notes	2011 \$'000	2010 \$'000
Financial assets			
Cash and cash equivalents	14	69,707	-
Receivables	15	77,451	697
Total		147,158	697
Financial liabilities			
Payables	21	85,687	15,957
Other financial liabilities – borrowings	22	1,322,216	-
Total		1,407,903	15,957

(b) Credit risk exposure

The maximum exposure to credit risk at 30 June 2011 in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any provisions for impairment. No collateral is held as security relating to the financial assets held by the Authority.

The following table represents the Authority's maximum exposure to credit risk based on contractual amounts net of any allowances:

Maximum exposure to credit risk

Category	Notes	2011 \$'000	2010 \$'000
Cash and cash equivalents	14	69,703	-
Receivables	15	77,451	697
Total		147,154	697

No collateral is held as security and no credit enhancements relate to financial assets held by the Authority.

No financial assets and financial liabilities have been offset and presented net in the Statement of Financial Position.

The method of calculating any impairment provision for risk is based on the Authority's past experience and industry experience. The recognised impairment provision for receivables is \$1,635,235 for the current year.

No financial assets have had their terms renegotiated so as to prevent them from being past due or impaired, and are stated at the carrying amount as indicated.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

29. Financial instruments (CONT.)

Ageing past due, but not impaired, as well as impaired financial assets are disclosed in the following tables:

Receivables	Gross \$'000	Impairment \$'000	Total \$'000
2011			
Not past due	54,347	-	53,347
Past due 0-30 days	4,718	-	4,718
Past due 31- 60 days	8,307	-	8,307
Past due 61- 90 days	1,507	-	1,507
More than 91 days	10,207	1,635	8,572
	79,085	1,635	77,451
2010			
Not past due	697	-	697
Past due 0-30 days	-	-	-
Past due 31- 60 days	-	-	-
Past due 61- 90 days	-	-	-
More than 91 days	-	-	-
	697	-	697

(c) Liquidity risk

The Authority is exposed to liquidity risk in respect of its payables and borrowings from QTC. The following table set out the liquidity risk of financial liabilities held by the Authority. It represents the contractual maturity of financial liabilities, calculated based on undiscounted cash flows relating to the repayment of the principal amount outstanding at balance date.

	Financial liabilities			Total \$'000
	<1 year \$'000	Payable in 1-5 years \$'000	>5 years \$'000	
2011				
Trade and other payables	85,687	-	-	85,687
Loans	-	1,160,652	-	1,160,652
QTC borrowings	-	-	125,000	125,000
Working capital facilities	7,687	28,877	-	36,564
Total	93,374	1,189,529	125,000	1,407,903
2010				
Trade and other payables	15,957	-	-	15,957
Loans	-	-	-	-
QTC borrowings	-	-	-	-
Working capital facilities	-	-	-	-
Total	15,957	-	-	15,957

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

29. Financial instruments (CONT.)

(d) Market risk

The Authority does not trade in foreign currency and is not materially exposed to commodity price ranges. The Authority is exposed to interest rate risk through borrowings and investment with QTC and cash deposited in interest bearing accounts.

Profile

At the reporting date the interest rate profile of the Authority's interest bearing financial instruments was:

	2011 \$'000	2010 \$'000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	1,197,216	-
	1,197,216	-
Variable rate instruments		
Financial assets	69,703	-
Financial liabilities	125,000	-
	194,703	-

Sensitivity analysis for variable rate instruments

The following sensitivity analysis depicts the outcome to profit and loss if interest rates would change by +/- 1% from the year end rates applicable to the Authority's financial assets and liabilities. The calculations assume that the rate would be held constant over the next financial year, with the change occurring at the beginning of that year.

		Interest rate risk			
		- 1%		+ 1%	
	Net carrying amounts \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2011					
Financial assets	69,703	(697)	(697)	697	697
Financial liabilities	(125,000)	1,250	1,250	(1,250)	(1,250)
Sensitivity (net)	(55,297)	553	553	(553)	(553)
2010					
Financial assets	-	-	-	-	-
Financial liabilities	-	-	-	-	-
Sensitivity (net)	-	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

29. Financial instruments (CONT.)

Fair value

The fair value of interest bearing loans and borrowings is calculated based on discounted expected future cash flows. The fair values of the loans and borrowings, together with the carrying amounts, are as follows:

	Carrying amount \$'000	Fair value \$'000
2011		
Participating Councils		
Working capital	36,564	36,383
Senior loans	644,807	642,954
Subordinated loans	515,845	513,279
QTC borrowings	125,000	125,382
Total	1,322,216	1,317,998

2010

Participating Councils		
Working capital	-	-
Senior loans	-	-
Subordinated loans	-	-
QTC borrowings	-	-
Total	-	-

30. Operating leases

	2011 \$'000	2010 \$'000
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(a) Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

Less than one year	1,985	-
Between one and five years	2069	-
More than five years	-	-
	4,054	-

(b) Leases as lessor

Non-cancellable operating lease rentals are receivable as follows:

Less than one year	921	-
Between one and five years	3,268	-
More than five years	3,891	-
	8,080	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

31. Commitments

(a) Capital expenditure commitments

Material classes of capital expenditure commitments inclusive of anticipated GST, contracted for at reporting date but not recognised in the accounts as payable are as follows:

	2011 \$'000	2010 \$'000
Infrastructure		
Within one year	27,930	-
One year and no later than five years	549	-
	28,479	-
Intangibles		
Within one year	2,949	-
	2,949	-

(b) Operating expenditure commitments

Operating expenditure contracted but not yet provided for and payable at the end of the period are as follows:

Within one year	1,418	-
One year and no later than five years	3,497	-
More than five years	1,246	-
	6,161	-

32. Contingencies

(a) Legal proceedings

The Authority is in dispute with a contractor for the non-performance of the contractor's obligation in regards to the operation and maintenance of the Redcliffe Sewerage Treatment Plant. The amount claimed against the contractor is estimated at \$4,000,000. Refer to Note 35 – Subsequent events for further details.

(b) Insurance events

The Authority is seeking to settle a number of outstanding insurance claims and recover costs or losses from insurers.

The largest outstanding insurance claims relate to the costs incurred by the Authority as a result of the Queensland flood crisis and extreme wet weather conditions. The costs associated with these events have been estimated at \$4,391,000. Insurance claims have been submitted for these expenditures and it is the Authority's opinion that the insurance claims receivable will be sufficient to cover the costs of the required repairs.

No amounts for contingent assets or liabilities have been provided in the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

33. Key management personnel

(a) Board Members

An interim Board was established on 1 March 2010 under an Interim Participation Agreement during the Authority's establishment phase. All Board Members were subsequently appointed on 1 July 2010 under the Participation Agreement for a term of three years.

Board Members' remuneration is established under the Participation Agreement and is with the unanimous agreement of the Participants. Board Members' fees include fees paid for membership of the Authority's Board and relevant Board committees. The Board Members who were paid, or were due to be paid from the Authority were:

	2011 Remuneration	2010 Remuneration
	\$	\$
Jim Soorley	105,000	40,000
Sharon Doyle	56,000	18,667
Megan Houghton	56,000	18,667
Michael Arnett	61,000	18,667
Bob Thorn (1 July 2010 – 14 February 2011)	35,583	18,667
	313,583	114,668*

(*) Remuneration in 2010 was for four months from the establishment of the board on 1 March 2010 to 30 June 2010.

(b) Loans to key management personnel

None of the key management personnel have personal loans with the Authority outstanding at 30 June 2011.

(c) Other key executive management personnel transactions

Key executive management personnel of the Authority or their related parties conduct transactions with the Authority on terms and conditions no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

All transactions with key executive management personnel that occurred during the financial year related to the domestic supply of water and sewerage services, and were trivial in nature.

(d) Board Members' transactions

A number of the Board Members hold positions in other entities that may result in them having control or significant influence over the financial or operating policies of those entities. Megan Houghton is a Director of Wide Bay Water Corporation. The Authority paid \$141,927 during the financial year for services to Wide Bay Water Corporation. This entity was engaged on an arm's length basis under commercial terms and conditions.

Related party transactions between the Authority and its Participants are disclosed in Note 34.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

33. Key management personnel (CONT.)

(a) Key executive management personnel

The following details for key executive management personnel include those positions that had authority and responsibility for planning, directing and controlling the activities of the Authority during the year. Further information on these positions can be found in the body of the Annual Report under the section relating to Executive Management.

Position	Responsibilities	Current incumbents	
		Contract classification	Date appointed to position
Chief Executive Officer	Responsible for the efficient, effective and economic administration of the Authority.	Contract of employment	3 November 2009
Chief Operating Officer	Responsible for managing all aspects of infrastructure planning, capital works delivery, asset management, technical services and the day to day systems operations and maintenance requirements of the Authority.	Contract of employment	6 September 2010
Executive Manager Retail	Responsible for ensuring the commercial and regulatory obligations to Government, customers and the community are met through effective leadership of the retail division of the Authority.	Contract of employment	1 July 2010
Chief Financial Officer	Responsible for managing all aspects of the accounting, finance and regulatory requirements of the Authority.	Contract of employment	24 January 2011
Executive Manager Workforce Capability and Change	Responsible for workforce strategy, human resources practices, policies and procedures of the Authority.	Contract of employment	1 July 2010
Executive Manager Business Support Services	Responsible for the delivery of strategic planning, business performance monitoring, management and sustainability of stakeholder relations of the Authority.	Contract of employment	14 December 2009
Chief Information Officer	Responsible for the development and implementation of an information and communications technology strategy and policies of the Authority.	Contract of employment	26 July 2010
Executive Manager Regulatory and Governance	Responsible for the regulatory, governance, risk management and compliance requirements of the Authority.	Service agreement	3 November 2009

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

33. Key management personnel (CONT.)

(b) Remuneration

Remuneration and other terms of employment for the Authority's key executive management personnel are formalised in either contracts of employment or service agreements.

Service agreements

The Authority has an agreement with ASG Infrastructure Consulting Pty Ltd (ASG) and Antoinette Carley of the company. Under the terms and conditions of the agreement, ASG has agreed to provide company secretarial, legal counsel, administration and other services to the Authority. Additionally to the supply of services, Antoinette Carley agreed to act from 1 July 2010 to 31 January 2011 in the role of Executive Manager Regulatory and Governance.

ASG receives a daily fee for the provision of services. The Authority is also obliged to reimburse ASG for all reasonable and necessary expenses incurred by ASG in providing services pursuant to the agreement.

Contracts of employment

Contracts of employment make a provision for an appropriate combination of competitive fixed and variable remuneration components.

The fixed component of remuneration is linked to an assessment of the job size and value based on independent market advice and evaluation. A Fixed Annual Remuneration (FAR) concept for the structure of executive remuneration is utilised. The market median of remuneration in the Power, Water and Utilities: Government Business Enterprises is used as a basis for determining the FAR for executive managers. While the FAR is capped, the executive then has the flexibility to decide the composition of the total fixed remuneration, which could include cash salary, motor vehicle, additional superannuation, plus any fringe benefits tax incurred. No other non-cash benefits are provided to executives as the FAR concept captures various benefits structured within a total cost rather than a base salary plus benefits approach.

Annual increases in remuneration are in accordance with recommendations endorsed by the Nominations and Remuneration Committee and approved by the Board in line with the governance arrangements for executive managers provided by the Authority.

The variable component of remuneration is provided to executive managers through an annual incentive payment scheme. This scheme is designed to effectively reward a combination of key behaviours, capability and performance aligned with business, divisional and individual goals and targets. The performance payment is contingent upon the Board's assessment of the Authority's overall performance. Performance payments may not exceed a maximum of twenty per cent of the individual's FAR figure and require endorsement by the Nominations and Remuneration Committee and approval by the Board.

Where employment is terminated due to the Authority's operational requirements, a redundancy payment is payable in accordance with the *Industrial Relations Act 1999 (QLD)*. The payment is based on the individual's FAR figure and period of service;

- | | |
|------------------------|----------------------------|
| i. 12 months service | 4 weeks redundancy payment |
| ii. 24 months service | 6 weeks redundancy payment |
| iii. 36 months service | 7 weeks redundancy payment |



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

33. Key management personnel (CONT.)

An additional weeks redundancy payment per year of service is payable thereafter with a cap at sixteen weeks for twelve years service.

A termination payment made will comprise all entitlements accrued under the contract and where the executive has completed seven years of service the payment will include long service leave of 0.8667 or 1.3 weeks for each completed year of service. The Chief Executive Officer has to complete ten years of service before any long service leave payment is made.

All remuneration component amounts are reviewed annually by the Nominations and Remuneration Committee and the Board. All amendments to the remuneration policy for key executive management personnel are reviewed by the Nominations and Remuneration Committee for endorsement prior to submission to the Board.

Total fixed remuneration is calculated on a 'total cost' basis and includes the base and non-monetary benefits, long term employee benefits and post employment benefits. All executives were employed for the entire financial year unless otherwise disclosed.

1 July 2010 – 30 June 2011

Position	Short term employee benefits		Post employee benefits	Termination benefits	Total remuneration
	Base	Non-monetary benefits			
	\$	\$	\$	\$	\$
Chief Executive Officer	329,872	12,222	25,328	-	367,422
Chief Operating Officer (6 September 2010 – Current)	236,326	-	21,269	-	257,595
Executive Manager Retail	200,719	14,122	24,086	-	238,927
Chief Financial Officer (1 July 2010 – 17 September 2010)	53,307	2,170	7,286	27,701	90,464
Chief Financial Officer (24 January 2011 – Current)	106,596	-	9,594	-	116,190
Executive Manager Workforce Capability & Change	200,768	-	18,069	-	218,837
Executive Manager Business Support Services	190,838	10,015	17,177	-	218,030
Chief Information Officer (26 July 2010 – Current)	155,654	-	14,797	-	170,451
Executive Manager Regulatory and Governance	418,015	-	-	-	418,015
Total remuneration	1,892,095	38,529	137,606	27,701	2,095,931

No prior period comparative information on key executive management personnel remuneration has been disclosed as it is impracticable for the Authority to obtain the required information.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

33. Key management personnel (CONT.)

(c) Performance payments

The aggregate performance bonuses expected to become payable to key executive management personnel after performance reviews are completed and endorsed by the Nominations and Remuneration Committee are as follows:

	2011 \$	2010 \$
Performance payments	253,442	-

34. Related parties

Transactions with Participating Councils

The amount of revenue and expenditure included in the Statement of Comprehensive income, and the amount receivable or payable to Participating Councils are as follows:

	2011 \$'000	2010 \$'000
Revenue		
Moreton Bay Regional Council	2,296	-
Sunshine Coast Regional Council	2,558	-
	4,854	-
Expenses		
Moreton Bay Regional Council	59,515	-
Sunshine Coast Regional Council	44,793	-
	104,308	-
Amounts payable to Council		
Moreton Bay Regional Council	12,546	8,961
Sunshine Coast Regional Council	16,730	-
	29,276	8,961
Amounts receivable from Council		
Moreton Bay Regional Council	2,649	-
Sunshine Coast Regional Council	10,045	-
	12,694	-

Amounts owing are unsecured and are expected to be settled in cash.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

35. Subsequent events

(a) Legal proceedings

On 3 August 2011, legal proceedings were served on the Authority by a contractor in relation to the Authority drawing down on two bank guarantees for repairs at the Redcliffe Sewerage Treatment Plant. A determination whether the Authority can retain the \$1,000,000 will be made on 28 September 2011 in the Supreme Court of NSW. The Authority is defending the claim. The amount claimed against the Authority is limited to the drawing down of the bank guarantee totalling \$1,000,000.

The Authority is asking in the same proceedings for payment by the contractor of further security of approximately \$750,000.

36. Auditor's remuneration

2011
\$'000

2010
\$'000

Audit services

Auditors of the Authority: *Queensland Audit Office*

- Audit and review of financial reports

259

40

There are no non-audit services included in this amount.

MANAGEMENT CERTIFICATE FOR THE YEAR ENDED 30 JUNE 2011

Certificate of Unitywater for the year ended 30 June 2011

These general purpose financial statements have been prepared pursuant to section 62 (1) of the *Financial Accountability Act 2009* (the Act), relevant sections of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with section 62 (1) (b) of the Act we certify that in our opinion:

- a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material aspects; and
- b) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Authority for the financial year ended 30 June 2011 and of the financial position at the end of that year.



Jim Soorley
Chairman

25/8/2011



Jon Black
Chief Executive Officer

25/8/2011



Pauline Thomson
BBus(Acc), CPA, GAICD
Chief Financial Officer

25/8/2011



INDEPENDENT AUDITOR'S REPORT

To the Board of the Northern SEQ Distributor-Retailer Authority

Report on the Financial Report

I have audited the accompanying financial report of the Northern SEQ Distributor-Retailer Authority, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Chairman, Chief Executive Officer and Chief Financial Officer.

The Board's Responsibility for the Financial Report

The Board is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, including compliance with Australian Accounting Standards. The Board's responsibility also includes such internal control as the Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements approved by the Treasurer for application in Queensland.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The Auditor-General Act 2009 promotes the independence of the Auditor General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

INDEPENDENT AUDITOR'S REPORT

Opinion

In accordance with s.40 of the *Auditor-General Act 2009* –

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion –
 - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report, as set out on pages 6 to 50, presents a true and fair view, in accordance with the prescribed accounting standards, of the transactions of the Northern SEQ Distributor-Retailer Authority for the financial year 1 July 2010 to 30 June 2011 and of the financial position as at the end of that year.

Emphasis of Matter – Significant Uncertainty Regarding Water Pricing post 30 June 2013

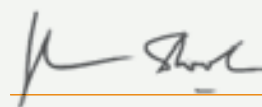
Without modifying my opinion, attention is drawn to the following matter. As disclosed in Note 19, the Northern SEQ Distributor-Retailer Authority has determined the fair value of its land, buildings and infrastructure assets using an income approach based on discounted cash flows. The Authority has also performed an impairment assessment of its assets based on current pricing arrangements for water Distributor-Retailers in South East Queensland.

As the price paths for retail water and sewerage charges post 30 June 2013 have not yet been determined, significant uncertainty exists regarding the assumptions used for valuation and impairment modelling and the resulting impact, if any, on the reported asset balances.

Other Matters - Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of the Northern SEQ Distributor-Retailer Authority for the year ended 30 June 2011. Where the financial report is included on the Northern SEQ Distributor-Retailer Authority's website the Board is responsible for the integrity of the Northern SEQ Distributor-Retailer Authority's website and I have not been engaged to report on the integrity of the Northern SEQ Distributor-Retailer Authority's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.



G G POOLE FCPA
Auditor General of Queensland

Queensland Audit Office
Brisbane



The Honourable Stephen Robertson MP
Minister for Energy and Water Utilities
PO Box 15216
CITY EAST QLD 4002

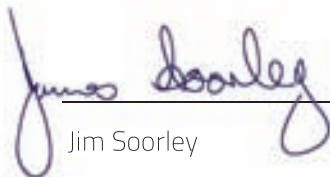
Dear Minister

I am pleased to present the Annual Report 2010-2011 for Unitywater.
I certify that this Annual Report complies with:

- the prescribed requirements of the Financial Accountability Act 2009 and the Financial and Performance Management Standard 2009, and
- the detailed requirements set out in the Annual Report Requirements for Queensland Government agencies.

A checklist outlining the annual reporting requirements can be (found at page 94) of this annual report or accessed at www.unitywater.com/annualreport

Yours sincerely



Jim Soorley
Chairman
Unitywater

General

Summary of compliance

Summary of requirement		Basis for requirement	Annual report reference
Accessibility	Table of contents	ARRs – section 8.1	Page 1
	Glossary		Page 96
	Public availability	ARRs – section 8.2	Inside Cover
	Interpreter service statement	<i>Queensland Government Language Services Policy</i>	Inside Cover
	Copyright notice	<i>Copyright Act 1968</i>	Inside Cover
	Government Information Licensing Framework (GILF) Licence	<i>Government Information Licensing Framework (GILF) QGEA Policy</i>	N/A
Letter of compliance	A letter of compliance from the accountable officer or statutory body to the relevant Minister(s)	ARRs – section 9	Page 93
General information	Introductory Information	ARRs – section 10.1	Page 5
	Agency role and main functions	ARRs – section 10.2	Page 7
	Operating environment	ARRs – section 10.3	Page 27
	External scrutiny	ARRs – section 10.4	Page 39
	Machinery of government changes	ARRs – section 10.5	N/A
	Review of proposed forward operations	ARRs – section 10.6	Page 21
Non-financial performance	Government objectives for the community	ARRs – section 11.1	Page 9
	Other whole-of-government plans / specific initiatives	ARRs – section 11.2	N/A
	Council of Australian Government (COAG) initiatives	ARRs – section 11.3	Page 9
	Agency objectives and performance indicators	ARRs – section 11.4	Page 10
	Agency services and service standards	ARRs – section 11.5	Page 13
Financial performance	Summary of financial performance	ARRs – section 12.1	Page 41
	Chief Finance Officer (CFO) statement	ARRs – section 12.2	N/A
Governance – management and structure	Organisational structure	ARRs – section 13.1	Page 22
	Executive management	ARRs – section 13.2	Page 30
	Related entities	ARRs – section 13.3	N/A
	Schedule of statutory authorities or instrumentalities	ARRs – section 13.4	N/A
	Boards and committees	ARRs – section 13.5	Page 26
	<i>Public Sector Ethics Act 1994</i>	<i>Public Sector Ethics Act 1994 (section 23 and Schedule)</i>	Page 33
	<i>Whistleblowers Protection Act 1994</i>	<i>Whistleblowers Protection Act 1994 (sections 30 – 31 and Schedule)</i>	N/A



General

Summary of compliance

Summary of requirement		Basis for requirement	Annual report reference
Governance – risk management and accountability	Risk management	ARRs – section 14.1	Page 33
	Audit committee	ARRs – section 14.2	Page 33
	Internal Audit	ARRs – section 14.3	Page 33
Governance – human resources	Workforce planning, attraction and retention	ARRs – section 15.1	Page 35
	Early retirement, redundancy and retrenchment	Directive No.17/09 <i>Early Retirement, Redundancy and Retrenchment</i>	N/A
	Initiatives for women	ARRs – section 15.1 & 15.3	N/A
	Carers (Recognition) Act 2008	<i>Carers (Recognition) Act 2008</i>	Page 37
Governance – operations	Consultancies	ARRs – section 16.1	Page 39
	Overseas travel	ARRs – section 16.2	Page 39
	Information systems and recordkeeping	ARRs – section 16.3	Page 39
	Waste management	<i>Environmental Protection (Waste Management) Policy 2000, Environmental Protection Act 1994</i>	N/A
Other prescribed requirements	Indigenous matters (The Queensland Government Reconciliation Action Plan 2009-2012)	<i>The Queensland Government Reconciliation Action Plan 2009-2012</i>	N/A
	Shared services	ARRs – section 17.2	N/A
	Carbon emissions	<i>Premier's Statement</i>	N/A
Optional information that may be reported	Corrections to previous annual reports	ARRs – section 18.1	N/A
	Right to Information	<i>Right to Information Act 2009</i>	Page 39
	Information Privacy	<i>Information Privacy Act 2009</i>	Page 39
	Native title	N/A	N/A
	Complaints Management	N/A	Page 39
Financial statements	Certification of financial statements	<i>FA Act – section 62 FPMS – sections 42, 43 and 50</i>	Page 90
	Independent Auditors Report	<i>FA Act – section 62 FPMS – section 50</i>	Page 91
	Remuneration disclosures	<i>Financial Reporting Requirements for Queensland Government Agencies</i>	Page 87

FA ACT Financial Accountability Act 2009

FPMS Financial and Performance Management Standard 2009

ARRs Annual report requirements for Queensland Government agencies

General

Glossary

TERM	MEANING
CEO	Chief Executive Officer
CIO	Chief Information Officer
COO	Chief Operating Officer
Distributor-retailer	The term that describes Unitywater's two core business functions in managing the distribution networks and providing water supply and sewerage service retailing (customer service, billing)
eDRMS	Electronic Document and Recordkeeping Management System
ICT	Information Communications Technology
kms	Kilometres
LTI	Lost Time Injury
NSDRA	Northern SEQ Distributor - Retailer Authority
Participation Agreement	Sets out the rights of the participant councils and obligations of Unitywater to those councils
Sewerage	Sewerage means a sewer, access chamber, vent, engine, pump, structure, machinery, outfall or other work used to receive, store, transport or treat sewage
Sewage	Raw product
SEQ	South East Queensland
Service Level Agreement	A service contract where the level of service is formally defined
Workforce Framework	A document negotiated by the Council of Mayors SEQ (on behalf of the SEQ local governments) and unions that protects employment terms and conditions for employees affected by water reform changes
Water supply	The transportation of potable water through Unitywater's infrastructure to residents and businesses
QCA	Queensland Competition Authority
ISD	Infrastructure Services Division





This report is publicly available and can be viewed and downloaded from the Unitywater website at www.unitywater.com/annualreport. To meet State Government requirements, a limited number of this report were printed. Consistent with our Environmental Management Policy, all printed copies were produced using environmentally-responsible stock.



100% Recycled - This paper is made entirely from post-consumer waste (making it a 'true' recycled grade), and is produced in a unique 'closed loop' production process ensuring that all bi-products are reused and recycled.



ISO 14001 - The International Standards Organisation specifying the requirements of an environmental management system.



EMAS -The EU Eco-Management and Audit Scheme is a management tool for companies and other organisations to evaluate, report and improve their environmental performance.